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**Prepared for:**

**USAID Montenegro  
Good Local Governance Project**

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**STANDARDS FOR  
REVENUES COLLECTION  
IN MONTENEGRO**

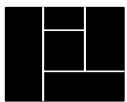


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## Forward

The Urban Institute is the implementer of the USAID Montenegro Good Local Governance Project (GLG), a three year (2004 – 2007) \$13 million initiative.

The project promotes the implementation of recently passed local governance laws in all 21 Municipalities in Montenegro, particularly laws related to municipal finance and citizen participation, and the improvement of municipal services, including water supply.

The authors of this manual are David Magor, Executive Director of the Institute of Revenues Rating and Valuation (IRRV) and Patrick Doherty, Past President of the IRRV and an independent local government finance and local taxation consultant.

The Institute of Revenues Rating and Valuation (IRRV) is a London based professional Institute that has over 5,000 members world wide. It is the lead professional body for the administration and professional practice in Local Taxation, Rating, Valuation, Revenues and Benefits. It has a long established reputation in the promotion of professional excellence and providing independent, expert advice on all areas of the property taxation profession. The IRRV is also an examining body and a centre of research and policy.

This manual benefits from the comments received by the following team of local and central government officials during a review of the manual held in Kotor from 2<sup>nd</sup> to 5<sup>th</sup> September 2004:-

Gani Demini	Municipality of Ulcinj
Jelena Lackovic	Municipality of Budva
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Tomo Kaljevic	Municipality of Zabljak
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Vlatko Pekovic	Municipality of Berane
Nikica Ivovic	Municipality of Podgorica
Marina Milacic	Ministry of Finance



## **Section One**

### **1. *Introduction and Scope of the Manual***

#### **1.1 Guidelines**

This manual sets out standards and guidelines that are written for Municipal Revenue collection officials. The purpose being to assist them to discharge their duties under the various laws on Revenue Collection (Local taxes, Fees and Charges) and to help them improve the efficiency and effectiveness of income collection and, where possible, to conform to international best practices.

It details information designed to provide staff with a deeper understanding of good practice. It also provides guidance on the appointment and development of staff and communicating with the tax payer / fee payer.

Reference is given (where appropriate) to the relevant legislation. Text within the manual is not designed to replace the legislation itself and staff will still have to refer to the law especially when handling a complex case.

Basic knowledge in the operation of a computer terminal and the application software has been assumed.

No attempt has been made to document the intricate thought processes required in attempting to resolve cases where a detailed knowledge of both the legislation and case law is required.

It is intended that the manual will provide guidance on best practice in income collection but will not replace user guides and technical information manuals that are used for the day to day operations.

#### **1.2 Position in Montenegro**

The fiscal decentralisation project is still in its early stages as is the tax and income collection procedures. Following a fact finding mission by the specialist advisors David Magor and Pat Doherty on behalf of the Urban Institute the following conclusions were drawn: -

- There is a culture of non payment that will require a long intensive period of educating tax / fee payers that it is actually in their interests to pay monies due. This results in low levels of collection particularly in relation to the Real Estate Tax, Consumption Tax and the Tourist Tax.
- The organisation of income collection varies from municipality to municipality and often several departments are involved – it is our view that income collection should be centralised for the reasons that are set out in the manual.

- There are too many “local taxes” resulting in too many bills being sent to tax / fee payers for small amounts. Some of the taxes and fees should be consolidated in to a single charge, the vehicle for which is the Real Estate Tax. Examples are the communal tax for services such as refuse collection and the Tax on Construction Land which is an area based tax – so is effectively a property tax.
- There is a lack of management information and performance management information that needs addressing in the development of new computer systems.
- The computer system that has been developed particularly for Real Estate Tax is, in our view, inadequate for its purpose as it essentially only a billing system. It does not provide adequate facilities for recording payments, enforcement or for providing management information.
- Procedures for annual billing need to be reviewed as an important element of collection is the timeliness of billing. Practice in billing procedures varies from Municipality to Municipality and requires reviewing.
- The method of serving notices and requiring an acknowledgement is unnecessary and requires an amendment to the current legislation so that service can be effected simply using the postal services.
- Enforcement procedures need to be clarified as currently we found little evidence of trying to enforce payment of the real estate tax, the tourist tax or the consumption tax, in particular. Without effective enforcement taxpayers will treat payment as voluntary.
- Many of the charges / taxes are payment for facilities / services provided where payment is made in advance. We consider this to be good practice and should be continued.

On the plus side we met with many officials who were clearly enthusiastic about improving collection levels and it is our view that if the issues mentioned above are addressed then collection levels will improve.

There is no short term fix to address these issues but we would recommend developing a project plan in conjunction with the Municipalities to take forward the following recommendations:

- Develop a tax / fee payer awareness campaign;
- Review the structure of the collection procedures in each of the Municipalities with a view to centralising within one Secretariat income billing, collection and enforcement;

- Hold discussion with the Municipal Enterprises – gas and electricity to determine if cooperative working can be undertaken;
- Review the current legislation to improve delivery mechanisms and enforcement powers;
- Develop new computer systems;
- Develop training programmes for officials.

## **Section Two**

### **2.0    *The Importance of Collection***

#### **2.1    The Collection Office**

The term “Collection Office” is the generic term that describes that part of the Municipality that is responsible for the billing, collection and enforcement for locally generated revenues. Inherent in this is responsibility for:-

- identifying and maintaining tax payer records,
- Issuing bills on a timely basis
- Collecting payments
- Responding to taxpayer queries
- Enforcing payment from delinquent taxpayers
- Dealing with exemptions and reliefs from taxes
- Maintaining high collection levels and ensuring that delinquent taxpayers pay their liabilities.
- Management and training of staff
- Developing taxpayer awareness strategies

#### **2.2    The position in Montenegro**

The organisation of income collection varies from municipality to municipality and often several departments are involved. There is a lack of management information and performance management information that needs addressing. Income collection should be centralised in to one Department and this will provide several advantages to the Municipalities including:-

- Economies of scale
- Drawing collection expertise in to one Department
- Ability to share information
- Focal point for taxpayers
- Improved career prospects for staff

#### **2.3    The Importance of Collection and Enforcement**

Without effective collection the democratic system fails. If taxes, fees and charges are not collected policies, programs and services cannot be delivered effectively. Poor collection reduces taxpayer / fee payer response and diminishes participation in the democratic process. Inefficient administration and collection curtails expenditure or creates the need to borrow to deliver services and policies

Collection and enforcement are strategically the most important components of income and tax systems.

## 2.4 Reasons for poor results

Improvement policies depend on the exact nature of the problem. Some major reasons (and possible solutions) for the low collection levels are:

- People do not pay because they know the government ultimately will not enforce the tax obligation. There are few enforcement measures (incentives, sanctions or penalties) and a lack of political will to use the available measures. There is unequal and selective enforcement. Tax / Fee payers often use the courts to forestall enforcement.

Solution: Ensure that the payment control system generates a prompt and accurate delinquency list to enable enforcement; reevaluate the incentives, sanctions, and penalty structure; and mobilize political will to enforce. Develop and use non-court options for encouraging compliance.

- People lack a payment mentality. Some cultural/political systems have a recent history of free services from the government and thus citizens do not understand the rationale for taxation.

Solution: Use tax / fee payer education programs to explain the importance of property taxation and income collection. Evaluate cultural/political norms and implement creative alternative means to stimulate compliance

- People refuse or are reluctant to pay because they have no faith in how the government will spend the collected revenue. They feel that revenues will be misused.

Solution: Increase government credibility by improving the budgeting and expenditure decisions. Improve public relations between the government and the taxpayers—correct misinformation about expenditure decisions. Encourage structures of representative government.

- People refuse to pay because they have no faith in the ultimate equity of the taxation systems. Outdated property information, unequal property valuations, incorrect assessment, mismanaged collections, unsystematic enforcement, and lack of fair appeals procedures creates mistrust.

Solution: Improve revenues collection policy and administration. Reexamine the policies related base definitions, exemptions, rates, deductions and assessment ratios, incentives, sanctions, penalties, and appeals. Administration improvements may need to focus on property information (ensuring that identification and taxation of all properties is undertaken), valuation, assessment, collection, enforcement, and appeals. In addition adopting a policy of “open records” laws and policies will deter delinquent taxpayers. This type of policy, however, would have to be done sensitively and based on international standards of data protection.

- People are willing to pay but do not because of poor taxation and income collection administration. For example, tax bills are late, or never delivered because of inadequate bill distribution systems, taxpayers are uninformed about payment procedures, payment procedures are complicated, and payment points are inconveniently located. Compliance costs for payment are very high in relation to the amount of tax or the penalty for non-compliance.

Solution: Improve tax administration. Use computers to calculate and issue tax assessment notices, change the legal concept of notification, institute an effective bill delivery system, improve the taxpayer education program, and simplify the payment system.

- People do pay but the revenue collected is mishandled and incorrectly managed. (This is especially a problem in cash-based societies.)

Solution: Transfer teller function to the banking system; install a carefully designed payment control system.

- People do not pay because effective tax rates are perceived as too high.

Solution: Use tax / fee payer education programs to explain the importance of property taxation.

## 2.5 Basic Concepts of Collection and Enforcement

Any collection process must meet a series of basic concepts. These concepts form the foundation any income or property tax administrative system:-

### *Management accountability*

The over-riding principle is that those who are responsible for the collection process must be accountable for their actions.

### *Effective and efficient*

The collection process must be both cost effective and cost efficient. The overall cost of collection and administration must not be an undue burden on the tax levy or the yield from fees and charges

### *Performance review*

Every action of collection and administration must be subjected to intensive performance review. The review must be rigorous and part of a regular monitoring programme.

### *Innovation and vision*

The administrative process must always be at the leading edge of international practice. There must be constant re-engineering of procedures to meet the ever-increasing demands on the collection process.

### *Set and pursue achievable objectives*

Those responsible for the administrative process must set a series of targets to ensure the collection performance is always challenged. The targets should meet the SMART criteria. (Specific, measurable, achievable, realistic and time based)

## 2.6 Fees and Charges as a Source of Municipal Income

Fees and Charges as opposed to the property tax (see below) are, in effect, a consumption tax which is highly visible unlike value added tax which is included in the overall price. Fees and charges can be an effective source of municipal income provided they are managed and collected efficiently.

Charging users for a local authority service is a direct way of ensuring that local people can see what they are getting for what they are paying.

Charging has benefits in terms of efficiency as well as accountability. Where consumers have a choice whether to pay for a service or not, those who provide the service can accurately judge the real level of demand. Realistic charging policies help to improve the efficient use of service

The development of fiscal decentralisation in local government and the advent of the 'enabling' local authority have increased significantly the potential for charging policies.

Across the Municipalities, these charges are levied for a wide variety of reasons. For example:

- to raise revenues in order to cover costs;
- to assist the Municipality in meeting financial targets;
- to avoid the Municipality having to undertake additional borrowing;
- to reduce abuse of services; and
- to meet statutory requirements.

Charging exists in a complex policy environment, one which involves important legal, political and financial factors surrounding such issues as the cost of providing the service (as opposed to the charge imposed) and the ability and willingness of service users to pay the charge.

Considering current charging practice, it is clear that there is no consistent philosophy governing the use of charges, either within or across Municipalities. The complexity of charging often leads Municipalities to manage charges on a service-by-service basis, instead of examining common issues in a corporate manner.

Consequently, collection systems currently operating are highly variable, involving different practices in different Municipalities. Nevertheless, there is one common factor underlying the continued development of charging policies - financial pressure. Charges have been introduced for a number of reasons:

- Charges serve as a signal of demand. The payment of a charge provides an indication as to what people who make use of a service are willing to pay in order to receive that service.
- Charges are 'fair', in the sense that people who use the service are paying toward the cost of providing the benefit they receive.
- Charges serve as a means of reducing net public spending since people are paying directly for a service which otherwise would be financed through other sources of local authority income.
- Charges are educative and thus recommended as a way of informing members of the public as to the cost of public service provision. The idea here is that the best way of 'bringing home to people' how much a service actually costs to provide is to charge for it.
- Charges improve efficiency in the provision of services because they introduce the disciplines of the market into local government.
- Charges provide much needed revenue for the Municipalities.

The last two of these serve as the principal rationale for the expansion of charging policy in local government, the simple fact being that Municipalities increasingly find themselves having to manage a shortfall between the cost of services which the public expect them to provide and the funding provided to Municipalities from the real estate tax and central government. As such, charges help to 'bridge the gap' between the spending needs of Municipalities and income they receive from local taxes and government grants.

## 2.7 Fees and Charges in Montenegro

As stated above when looking at current charging practice, it is clear that there is no consistent philosophy governing the use of charges, either within or across Municipalities. The complexity of charging leads them to manage charges on a service-by-service basis, instead of examining common issues in a corporate manner.

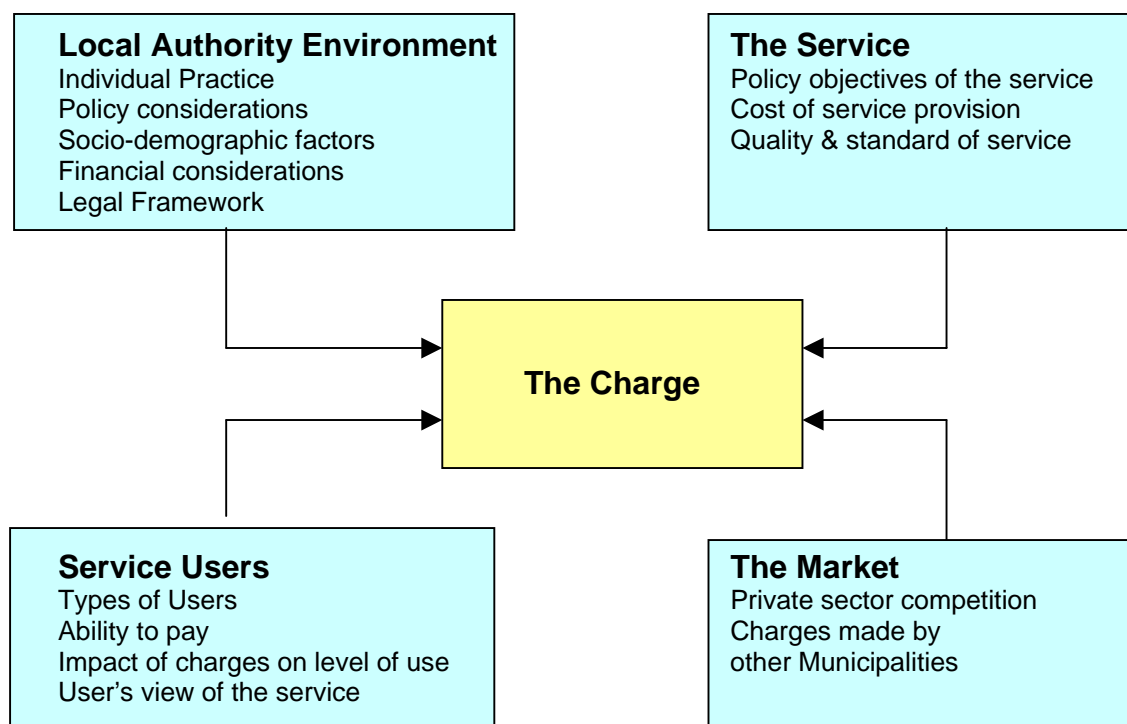
Charges should only be used where the provision of the service to a consumer can be measured and then converted to a charge that has some correlation with the level of service provided and when the service being provided is the public provision of private benefits. Charges should not be made for public services e.g. street lighting, since a person who refuses to pay cannot be prevented from enjoying the benefit and enforcing payment is difficult in practice.

Those that do not should form part of the general funding of the Municipalities whereby income is raised through an effective and efficient real estate tax.

A review of current fees should be undertaken to determine which can be consolidated in to the real estate tax.



## 2.8 Factors affecting Municipal Charges



The above chart identifies the principal factors that should be taken in to consideration when fixing fees and charges. Which factors are relevant to which particular tax or fee will very much depend on the type of service provided, the cost of providing the service, the user of the service and their ability to pay and whether the Municipality is in competition with the private sector in supplying the particular service.

## 2.9 Managing Fees and Charges

In order to achieve best value in the management of charges and to ensure maximum return from the charges the Municipalities need to ask themselves the following questions:-

- Is there a clear set of principles to guide charging decision?
- Are those principles translated into a framework for each service?
- How significant is income from charging?
- Are charges reviewed regularly?
- Is it clear what drives charging decisions?
- Where is there unrealized potential?
- Is there a clear and consistent approach to exemptions and concessions?

## 2.10 The Property Tax as a Fiscal Instrument

The property tax is a fiscal instrument designed to provide government revenue. The property tax can also be used to improve efficiency (for example, vacant land taxes or betterment taxes) and improve equity (for example, taxing real estate capital). These results can only occur, however, if the property tax is uniformly and effectively collected and enforced. The property tax objectives in law—revenue, efficiency, and equity—cannot be realized unless revenue is actually received.

Property taxation is not truly “taxation” without strict enforcement. Taxation without enforcement should better be called “contribution.” The property tax becomes a system in which only those who want or are forced to will pay (contribute). The property tax will not be based on “ability to pay” but on “ability not to pay.” Such a tax usually falls on the poor, the elderly and politically weak.

If revenue is the main purpose of property taxation, identification and valuation of the tax base are only supportive activities—important though they are, they are not the ultimate purpose. Therefore, a property tax agency should not view itself as a mapping or valuation agency. Maps, property information and property valuations are only intermediate results needed to achieve the final output, revenue collection.

## 2.11 Measuring Collection Efficiency

Collection efficiency ratios are defined in many ways. Some countries measure collection efficiency as the revenue collected divided by the government-determined tax target. Others measure it as revenue collected over total tax liability. Targets are very common in non-property taxes. However, as the property tax is a visible pre-billed tax, the government by definition knows the total tax liability. Therefore it is recommended that collection performance be defined as revenue collected as a percentage the total net tax liability (after the deduction of reliefs and exemptions)

## Section Three

### 3.0 *Legislative Framework*

#### 3.1 Legislation

The law governing the collection and enforcement of taxes and charges is contained in the following legislation:-

- Law on Communal Taxes and Fees (Appendix 1)
  - Defines local communal taxes as those for realizing rights and usage of property and services
  - Introduces a tourist tax
- Law on State Survey, Cadastre and Registration of Right to Real Estate (Appendix 2)
  - Defines real estate and provides for the preparation of a Cadastre together with the ability to undertake surveys.
- Law on Real Estate Tax 2001 (Appendix 3)
  - Sets out the basic elements of the real estate tax including the definition of “taxpayer” and that the basis of the tax is the market value of real estate.
  - The legislation provides that the administration of the tax is undertaken by local government.
- The Law on Tax Administration 2001 (Appendix 4)
  - Sets out administrative procedures for the obtaining of information, undertaking inspection and the collection and enforcement of taxes.
  - Sets out the rights and duties of taxpayers
- Law on Local Government Finance 2003 (Appendix 5)
  - Defines the taxes that may be introduced by Municipalities-
    - Surtax on physical person income tax;
    - Real estate tax;
    - Consumption tax (Beverage tax)
    - Tax on vacant construction plots;
    - Tax on company or title
  - Defines the joint revenues i.e. those that are shared between the Republic and the Municipalities –
    - Revenues from physical person income tax;
    - Revenues from tax on real estate turnover;

- Revenues from concession fees for using natural resources authorized by the Republic.
- Defines the sources of income available to Municipalities-
  - Municipal taxes;
  - Inheritance and gift tax;
  - Tax on games of chance;
  - Residential fee;
  - Local administrative fees;
  - Local communal fees;
  - Fees for using construction land and fees for construction land improvement;
  - Fees for protection and improvement of environment;
  - Revenues from property owned by a municipality and revenues from property titles;
  - Revenues from companies and other legal entities owned by a municipality, i.e. that the municipality is a shareholder of;
  - Fines pronounced in a petty offence proceedings, as well as property confiscated in that proceedings;
  - Revenues from concession fees for performing communal activities and revenues from other concession activities that a municipality concludes in compliance with law;
  - Revenues collected by municipal agencies, services, and organizations through their own activities;
  - Revenues from interests on municipal deposits;
  - Self-imposed contribution introduced for the territory of a municipality;
  - Revenues from grants and subsidies; and
  - Other revenues set by the law.

### 3.2 Rights of Municipalities to raise taxation

- *Surtax on physical person income tax*

(1) A municipality may introduce the obligation of paying surtax on physical person income tax at the rate up to 13% for the taxpayers of the physical person income tax from its territory.

(2) Surtax on physical person income tax shall be paid on personal earnings tax, self-employment tax, property income and property title income tax, and capital gains tax.

(3) Exceptionally, surtax rate on physical person income tax for the Administrative Capital and the Old Royal Capital may amount up to 15% of the tax liability from Paragraph 2 of this Article.

(4) Surtax on physical person income tax shall be paid by rate that a municipality determines by its own decision.

(5) In relation to calculating and paying surtax on physical person income tax, provisions from the law that regulates physical person income tax shall be accordingly implemented.

(6) Legal and physical persons, banks and other financial entities shall be obliged, at the request of a competent municipal taxation authority, to deliver data, or allow insight into their financial documents and other records for the purpose of ensuring control of tax calculation and payment.

- *Real estate tax*

- (1) Real estate tax shall be paid by legal and physical entities, i.e. owners of real estate;
- (2) Real Estate from Paragraph 1 of this Article are land, buildings, residential and business units of buildings and other building structures;
- (3) Revenues from Paragraph 1 of this Article shall belong to the budget of municipality the real estate is located on.
- (4) Real estate tax base shall be the market value of the real estate on the January 1, of the year for which the tax is determined.
- (5) Real estate tax rate shall be proportional and it may range from 0.08% to 0.80% of the real estate market value;
- (6) A municipality may determine the real estate tax rate according to the type of real estate;
- (7) In relation to calculating and paying the real estate tax, provisions of the law that regulates real estate tax shall be implemented.

- *Consumption tax (Beverage tax)*

- (1) Consumption tax (Beverage tax) shall be paid on consumption of alcoholic and non-alcoholic beverages in catering establishments;
- (2) Non-alcoholic beverages from Paragraph 1 of this Article are natural fruit juices, as well as all refreshing fizzy non-alcoholic beverages, mineral and sparkling water, with the exception of coffee and tea.
- (3) A consumption taxpayer shall be a legal or physical entity that provides catering services.
- (3) Consumption tax base shall consist of the selling price of beverages sold in an eating or drinking establishment that does not include the value added tax and the consumption tax.
- (4) The consumption tax rate shall be determined by a municipality and it cannot exceed 3% of the base that the consumption tax is paid on.
- (5) Exceptionally, the rate of the consumption tax for the Administrative Capital and the Old Royal Capital may amount up to 5%.

- (6) Calculated consumption tax shall be registered in records promulgated for calculating value added tax;
- (7) In relation to calculating and paying the consumption tax and in relation to other issues, which are not specifically defined by this law, provision of the law that regulates value added tax shall be implemented.

- *Tax on vacant construction plots*

- (1) Tax on vacant construction plots shall be paid by legal and physical entities, i.e. owners of vacant construction plots.
- (2) Vacant construction plots are the plots within boundaries of a settlement's construction area where, in compliance with the physical plan, building structures may be built and where no building structure is built.
- (3) Vacant construction plot is also a plot with a temporary building structure, for construction of which no approval is required, as well as the plot with ruins of a former building.
- (4) Tax base of the tax on vacant construction plots shall be the surface of the vacant construction plot expressed in m<sup>2</sup>.
- (5) Tax on vacant construction plots shall be paid annually, to the amount of 0.03 to 0.30 EUR per m<sup>2</sup> of vacant construction plot.
- (6) A municipality, by means of its specific decision, shall determine the amount of the tax on vacant construction plots, depending on location, size, and other circumstances important for using vacant construction plots.
- (7) Terms of calculating and paying the tax on vacant construction plots shall be determined by a municipality decision.
- (8) Taxpayers of the tax on vacant construction plots shall have to submit the data on location and size of the vacant construction plot to the competent taxation authority
- (9) Data from the Paragraph 1 of this Article shall be submitted by March 31 of the year for which the tax is determined.

- *Tax on company or title*

- (1) Taxpayers of the tax on company or title shall be legal and physical entities that are taxpayers of tax on profits of legal persons or physical person income tax and that are registered for performing certain activities.
- (2) Entities from the Paragraph 1 of this Article that within their organization have business units shall be obliged to pay the tax on company or title for each business unit.

(3) Tax on company (title) shall be paid annually to the amount determined by a municipality and it cannot exceed 300 EUR per a company or title.

(4) Terms of calculating and paying the tax on company or title shall be determined by a municipality enactment.

- *Local Communal Tax*

(1) The local communal tax ratepayer is the customer of the rights, property and services for which usage the payment of the local communal tax has been introduced.

(2) The obligation to pay starts on the day of using the rights, property or the services for which the payment of the local communal tax has been introduced.

(3) Local communal taxes may be introduced for:

- usage of a space within the public area or in front of the business facilities for the business related purpose, except for selling the printed material, books and other publications;
- holding lottery and entertainment games equipment (billiard, bingo etc.);
- hosting the musical events within the tourist facilities;
- posting the adds in the business facilities, except for posting the title of the State Institutions and other institutions and organizations that are responsible for the State management (management organizations, the public institutions etc.) and the institutions of the local self management;
- usage of the glass showcase for presenting the goods outside of the business facilities;
- usage of the advertising posters;
- usage of space for parking the motor vehicles and the additional vehicles on the arranged and marked area that are assigned for that purpose by the Municipality Assembly;
- usage of the empty areas for camping, putting a tent or other ways of temporary usage;
- keeping and usage of the sailing facilities and equipment on the water;
- keeping and usage of boats and floats on the water, except the boats that are used by the State and the local self management institutions as well as organizations that are responsible for maintaining and marking the sailing pathway;
- having the restaurants and other customer services and entertainment facilities on the water;
- usage of the Seaside for business related purposes;
- having motor vehicles and additional vehicles, except agricultural vehicles and machines, and
- having domestic animals.

- *Tourist Tax*
- (1) An individual responsible for paying the tourist tax is the citizen in the tourist accommodation facilities away from his/her place of residence.
  - (2) The tourist facilities within the scope of the Law are:
    - hotel, motel, pension, tourist settlement, camp, resort, natural SPAs, private accommodation, or
    - any other facility providing the accommodation for the tourist and travellers.
  - (3) The tourist tax is paid for every day of stay in the tourist facility if it is not for longer than 30 days.
  - (4) Exemptions from the tourist tax are:
    - children up to the age of 7;
    - the individuals with the substantial sensory and physical difficulties (the blind, deaf, dystrophic etc );
    - the individuals sent to SPA and the climate healing treatments, or special rehabilitation by the responsible medical commission ;
    - The participants of the school excursions, or the pupils and students whose stay has been organized by the school, higher education institution and the faculty as the part of the regular program, of the sport and cultural events;
    - Foreign citizens that are exempt from the taxes according to the international conventions and agreements;
    - Foreign citizens that come in an organized way to Montenegro through the official humanitarian organizations in order to provide the humanitarian assistance;
  - (5) The individuals aged 7 to 15 pay 50% of the tourist tax.

### 3.3 The Taxes in Montenegro

When the above taxes are considered from a practical point of view the following picture emerges in relation to the various taxes:-

- Real Estate Tax – Potentially an effective tax but currently with low levels of collection and a need for a review of administrative practices.
- Communal Taxes – Effectively these are licence fees for permissions but those elements that are not permissions should be consolidated in to the Real Estate Tax.



- Tourist Tax – That has now been taken away from the Municipalities as a source of income
- Consumption Tax – That has not been effectively implemented and should be centralised and included in to the VAT rate the income from which could then be redistributed to Municipalities.
- Surtax on Physical Persons – Again has not been effectively implemented.
- Tax on Vacant Construction Land – Not effectively implemented.
- Tax on Construction Land - Is an area based tax so is effectively a property tax and could be consolidated in to the Real Estate Tax.

### 3.4 The Collection Methods in Montenegro

The income collection process essentially falls in to four categories within the Municipalities:

- Billing in advance – Real Estate Tax is billed (or meant to be) at the commencement of the fiscal year. This type of billing relies on a reasonable payment culture to ensure that vast majority of taxpayers meet their liability and an effective enforcement process to ensure that delinquent taxpayers meet their obligations. At the present time in relation to domestic taxpayers neither exists. In relation to legal entities collection levels appear to be relatively high because of the ability to arrest bank accounts. In addition bills are not issued on a timely basis i.e. before the commencement of the fiscal year.
- Payment in Advance – This method of collection applies to such taxes / charges as tax on construction land and tax on public spaces, which are essentially payment for permission. This method is effective and results in high collection levels as the granting of the permission is conditional on the payment being made.
- Assessment and Collection at point of contact – This method relies on inspectors collecting taxes at the point of contact with the taxpayer. The principal example of this is the collection of the tourist tax. It is clear that the levels of income collected is very low compared to the potential level of income.

The method of collection needs to be reviewed as there is considerable potential for increasing income. We would recommend that the level of tax be based on an assumed level of visitors for each entity and billing be made at the commencement of the tourist season. An effective enforcement process also needs to be introduced.

With effect from 2005 this tax will no longer be the responsibility of the Municipalities but the principle of how collection becomes more effective still remains.

- Payment in Arrears – The consumption tax is due following consumption of certain beverages; however, the exemptions (tea and coffee) make this a difficult tax to monitor. In addition it depends on retailers ensuring that they maintain adequate records. The only way

this is practically possible is through the use of modern receipting equipment i.e. cash tills, which would be a relatively large cash outlay for retailers.

The result is that the Municipalities do not enforce payment. If this tax is to become an effective source of income there are only two choices:-

- Make it a statutory obligation (with penalties) for all retailers to replace their receipting equipment to accommodate the additional tax, or
- Add the appropriate percentage to Value Added Tax and Municipalities can then be reimbursed their share of the consumption tax. This is the low cost option.

## **Section Four**

### **4.0 Concepts of Collection**

#### **4.1 Principles of Collection**

The principles of the collection process can be encompassed in nine unmoveable rules:

- Efficient
- Effective
- Economic
- Integrity
- Customer centred
- Objective based
- Accountable
- Dynamic
- Well trained and motivated staff

#### **4.2 Description of Principles**

These principles or rules are in no particular order. No principle is more important than any other. The principles are inter-dependant. Each of them is addressed in more detail else where in this manual, however, they do each have a short definition and together they form the basis of any collection process. The individual definitions are:

- Efficient – the collection process must work productively with the minimum of wasted effort or expense.
- Effective – the collection process must produce the desired or intended result in accordance with practice, policy and legislation.
- Economic – the collection process must be justifiable in terms of cost and effort.
- Integrity – the collection process must be based on strong moral principles and must display internal consistency and be free of any corruption.
- Customer centred – the collection process must always be designed and delivered to meet the needs of the primary customer, the taxpayer or consumer.
- Objective – the collection process must not be influenced by personal feelings or opinions when considering and representing the facts.
- Accountable – The collection process must be required or expected to justify actions, decisions and outcomes.
- Dynamic – the collection process must be competitive and constantly seeking improvement and innovation in service delivery and performance.

- Well trained and motivated staff – this is self explanatory and is further explained in the sections on staffing.

#### 4.3 Efficiency and Effectiveness

In terms of local or sub-national government in Montenegro these objectives can only be achieved if functions are organised in such a way to ensure maximum efficiency and effectiveness. Irrespective of the size of the municipality certain rules need to be observed to meet the basic objectives. These rules are:

- There must only one point of cash collection within the municipality
- Customer contact facilities must be structured on a corporate basis rather than individually.
- Service delivery and associated administrative functions must be integrated rather than fragmented.
- Telephony must be centralised and call centre based
- Information technology must be centred around corporate facilities and contained within linked networks
- Staffing and management must be organised in such a way that economies of scale are maximised. Centralised collection and administration within each municipality achieve this.
- Central purchasing of materials and services must operate in each municipality. In some circumstances municipalities could co-operate to achieve further economies.
- Administrative services and service delivery must be joint to meet efficiency objectives. In this context, wherever possible one bill should be sent, inspection for various services must be integrated, contracts with collection agencies such as banks should be joint, and enforcement must be integrated with one uniform enforcement department for each municipality. Again in smaller municipalities these services can be shared.

This list of actions is not comprehensive. Different rules would apply for different municipalities depending on the structure of services and the range of discretionary services. One over-riding principle is that taxation and revenue services must be under the control of the Finance Secretariat.

#### 4.4 Management Accountability

Management accountability is an essential element of collection. Those who manage the service must take responsibility for the performance in every respect. The specific areas of accountability would be:-

- Amount collected against debit including ensuring;
  - The debit is accurate
  - All properties have been billed
  - The total of the bills agrees with the debit in the financial records
  - The level of income collected

- Reminder notices have been issued
- Records are maintained and kept up to date by use of inspections / surveys / cross checking with other records
- Identification of new properties
- Performance compared to other Municipalities
- Cost of collection
  - Well managed service
  - Cost effective compared to other Municipalities
- Customer perception
  - That the Municipality is providing a well managed, cost effective service that collects from all liable taxpayers.
- Staff morale
  - Well managed, well trained and paid in accordance with responsibilities of the job.

#### 4.5 Management Techniques

These specific areas can be observed by using various management techniques, the principle ones being

- SWOB Analysis
- Gap Analysis
- Quality Audits
- Management Audits
- Risk Analysis
- Sensitivity Analysis

#### 4.6 SWOB analysis (Strengths, weaknesses, opportunities and barriers)

This is a useful way to monitor accountability. It is also a useful way of engaging staff and staff organisations in the planning process by providing an agenda for more collective discussion about service delivery, its organisation and management within a legitimate, and hopefully non-threatening, framework.

A SWOB analysis is only useful if it is reasonably thorough. Vague and general questioning of strengths, weaknesses, opportunities and barriers will not be much use and may in fact conceal fundamental weaknesses in organisation.

It may be beneficial to split the criteria between a couple of groups. Notes of the discussions will prove invaluable.

List the strengths and weaknesses of the service or organisation together with the main opportunities and barriers it faces at present and over the next few years.

- **Strengths**

What are the organisation's strengths?

- how can these be improved
- how can they be protected
- how can these strengths be used to advantage

- **Weaknesses**

What are the organisations weaknesses?

- what are the cause(s) of the weakness
- how can they be rectified

- **Opportunities**

What are the main opportunities for the service?

- how can these opportunities be developed
- what prevents the organisation from taking advantage of these opportunities
- how long will they remain

- **Barriers**

What are the main barriers facing the service and organisation?

- how can these barriers be eliminated or minimised
- can these barriers be turned into opportunities

#### 4.7 SWOB Analysis – Key Issues

Strengths, weaknesses, opportunities and barriers can also be examined by focusing on certain key issues such as performance or staffing and discussing how they are affected by all four elements of a SWOB analysis. This approach should supplement the separate identification of strengths and weaknesses. Together they provide a basis for a more thorough examination of all the internal and external factors confronting the service.

- **Performance**

- are the existing service objectives being met
- how well and what are the gaps?
- are the performance targets clearly stated and are they being met?
- how is performance measured?
- are there problems with service delivery in particular areas?

- **Finance and resources**

- are resources fully used at present?
- are premises and equipment adequate and appropriately located?
- how efficiently are resources contributing to meeting financial targets?
- is investment needed for new equipment

- **Compatibility**

- are corporate policies being satisfied?
- are committee aims and policies being satisfied?

- **Organisation and management**
  - is the organisation top heavy or short on particular skills?
  - is management committed to implementing total quality management?
  - does communications between different levels of the organisation need to be improved?
  - is some restructuring needed?
- **Staffing**
  - does the organisation have the right balance of skills and experience?
  - can management-workforce relations be improved?
  - is there a high level of absenteeism and/or turnover?
  - can consultation be improved?
- **Users**
  - are existing and potential clearly identified?
  - are user (internal and external) needs being met?
  - How / where and why are needs not being met?
- **Trends**
  - what is the potential for growth or decline in the service?
  - new demands for users?
  - impact of new technology?
  - new developments in service delivery?
- **Legislation**
  - what will be the impact of new regulations?
  - will new or planned legislation affect your service?

The above checklist should provide a base from which to add further questions about strengths, weaknesses, opportunities and barriers particular to each service or organisation.

#### 4.8 Gap analysis

This technique represents another approach to strategic planning. It is based on carefully assessing current performance, projecting this to a future date, and then assessing the gap between this level of performance with the set targets or objectives.

- 'select a suitable performance indicator'
- 'where are we now?' In other words what is the agreed current position of the chosen indicator(s)
- 'where do we want to be at an agreed point in time?' In other words what is the target for the indicator(s) at the end of the planning period.
- 'where are we likely to be at the agreed point in time?' This requires forecasting the likely performance over the planning period based

the continuation of current organisational and management policies. It will have to anticipate the impact of changes in budgets.

- 'what is the extent of the any gap. This will enable examination of the different options available to close the gap.

#### 4.9 Quality audits

Assessing the current quality of the service will provide important information about the effectiveness of the service and identify the necessary changes required to maintain and improve quality during the plan period. It will also help to develop performance indices which can be used in the monitoring and evaluation of plans.

A brief for a quality audit might cover the following:

- to what extent does the service satisfy the needs of current and potential customers
- how do current levels of satisfaction -and participation- compare with those elsewhere
- how much does the service cost?
- is the present revenues service provided efficiently and economically?
- if there is evidence of dissatisfaction or low levels of participation: how could the revenues service be changed or developed to achieve higher levels of participation (by current or potential customers) and higher levels of satisfaction?
- if there is evidence of inefficiency or dis-economies what should be done to achieve improvements?
- where improvements in satisfaction or participation would contradict changes needed to achieve higher efficiency or economy levels: what would be the optimum solution?
- how much would it cost to achieve these changes and developments efficiently and economically?
- how would users view changes in the cost of services to them and how would such changes affect participation levels?

It is important that the audit team is multi-disciplinary in order to maximise objectivity and validation both internally and externally. The methodology of the team also needs to be agreed so that quality, rather than efficiency, is top of the agenda. Also use of user surveys, development of performance indicators and interviews with staff are an integral part of the audit.

#### 4.10 Management audits

Management Audit is a particularly useful means of examining the strengths, weaknesses and the potential for improvement in management practices. In practice it will often be very difficult for many senior managers to commit themselves to a comprehensive management audit but this is just as important as the effectiveness and efficiency of service deliver.



It may be advantageous to suggest a joint approach of carrying out a Quality Audit and a Management Audit at the same time.

A management audit should examine:

- service delivery management
- financial management
- personnel management
- support services management
- management of training needs

Many senior managers will be very reluctant to consider a management audit. However, there must be genuine attempts to tackle management problems and to recognise the importance of good management practice in improving the quality of services. It is vital to ensure that the plan focuses on the competence and performance of management as well as that of the rest of the workforce.

#### 4.11 Risk analysis

There are two types of risk failure for public authorities; failure of service delivery leading to breach of statutory duty and failure to achieve financial targets with the possibility of increased costs. Assessment would need to be made on:

- The likelihood of failure to deliver the revenues collection service
- The risk of non-performance in relation to revenues collection
- The risk that collection targets will not be achievable

#### 4.12 Sensitivity analysis

Sensitivity Analysis is used in assessing forecasts by quite simply asking a series of 'what if' questions to test the effect of wrong assumptions or changes in circumstances. It is a means of testing the validity of assumptions which underline forecasts. It is a form of scenario planning in which the effects of different circumstances or potential outcomes can be calculated and quantified..

#### 4.13 Monitoring, evaluation & review

Any process needs to clearly identify how it will be monitored and evaluated and who will be responsible for doing so. Too many processes are operated merely to satisfy corporate requirements rather than service delivery.

#### 4.14 Methodology

Effective monitoring can only take place if there is up to date information available. Monitoring an evaluation should also link into other time-scales, for example, the timing of annual accounts and so on in order to maximise the use of available information and minimise duplication.

The process should involve:

- deciding what is to be measured
- selecting which performance indicators will be used
- set performance targets
- agree method of monitoring
- analyse performance
- identify problems and appropriate measures
- take action

The tasks should ensure that there is:

- continuous monitoring
- regular reviews of:
  - overall service performance
  - the extent to which corporate objectives are being met
  - financial performance
- section by section performance review identifying those on target and the reason for those not achieving targets
- identify difficulties, action needed and set revised targets for next quarter

## Section Five

### 5.0 *Issue and Delivery of Tax Bills*

#### 5.1 Principles of Issuing Bills

It is the responsibility of the Municipalities to issue bills for local taxes, fees and charges and it is a principle of efficient tax collection, and in order to maximise cash flow, that bills are issued as soon as practicable after the delivery of the service. If the service is the issue of a licence or permission then payment should be demanded in advance.

In the case of the annual bills for Real Estate Tax then bills should be issued immediately prior to the beginning of the commencement of the fiscal year. This enables dates of payment to be set using the earliest possible dates in the fiscal year. It also enables all payment dates to be set within the current fiscal year.

Cash flow and collection levels are mutually dependent. Poor collection levels create cash flow difficulties, while delays in recovery and enforcement not only cause cash flow losses but eventual collection becomes more difficult, for example, the proportion of tax-payers who change address will increase the greater the delay in taking action.

All the annual bills should be issued at the same time or within a very limited time frame. Ad hoc bills, because taxpayers change address etc. should be issued promptly following notification of the change.

#### 5.2 Notification of Tax Liability

Policy and procedures for notifying the tax / fee payer are often neglected. The simple task of preparing a bill and giving it to the tax / fee payer seems easy enough but is often a major bottleneck in collection efforts.

- *Whom to notify.*

Notification should be sent to the property address, in care of the designated taxpayer if known. If the name of the taxpayer is not known, the demand notice should be addressed to "owner and/or current resident." Under a system of special request, a bill can be sent to a different mailing address, which enables one tax / fee payer owning several different parcels to receive all bills at a common address. The law should stipulate a broad legal definition of notification.

- *Demand notices should be issued for each Taxable Unit or Property.*

A tax / fee payer owning more than one parcel would receive more than one tax bill. Demand notices that combine more than one property or charge make it difficult to monitor payments and enforcement. For example, if a taxpayer makes a partial payment on one bill issued for a number of properties, which property parcel should

be encumbered (a caveat placed upon the property)? One demand notice for one property facilitates accounting and enforcement.

One demand notice for several properties may be justifiable under special circumstances, for example, because it is cost effective, especially for low-value contiguous properties. When information is available, a special category for multiple-property tax / fee payers can be established.

Multiple properties can be included in one tax bill under an in personam system, because the tax liability is actually on the person rather than the property.

### 5.3 Information contained in the tax demand notice

The principle is to provide the tax / fee payer with sufficient information while incurring the least possible administration and compliance costs. If bills are manually produced, each piece of information required increases cost and time. (Manual systems for tax bill production encourage transcription errors and often delay delivery of tax bills.) Thus, general information on payment procedures and location are usually preprinted on the form, and individual tax / fee payer information that must be transcribed is kept to a minimum (name, address, and amount owed). It is recommended that tax bill production be computerized.

Under computerized systems, notification of tax liability usually contains the following information:

- Name and address of taxpayer
- Legal entity address
- Unique property identification number
- Legal entity description (land and building area, land and building classification)
- Property valuation (broken into land and building components)
- Tax liability due
- Installment details
- Payment due date(s)
- Payment location
- Information concerning legal requirements (dates, penalties, procedures for appeal, and so on)

### 5.4 Delivery of Tax Bills

Any notice, demand or other document required or authorized to be sent or served may be sent or served either:-

- by delivering it to the person to or on whom it is to be sent or served;  
or
- by leaving it at the usual or last known place of abode or business of that person, or, in the case of a company, at its registered office;  
or

- by ordinary or special post; or
- by delivering it to some person on the premises to which it relates, or, if there is no person on the premises to whom it can be delivered, then by fixing it on or to some conspicuous part of the property
- by electronic means

## 5.5 Delivery Options.

Delivery of bills is an important issue and they are delivered in many ways - postal system or hand delivered by tax officials, local government officials, or private delivery service. Any system should minimize administration and compliance costs.

### 5.5.1 Postal Delivery

The delivery method is influenced by the legal definition of “notification” and specific circumstances within a country. Issuing bills by post is usually the accepted and preferred option but can be subject to some problems because bills sent by mail can be returned undelivered. This is attributed to reasons such as

- Lack of clear mailing addresses
- Wrong name but correct address
- Reluctance of postal system to accept tax mailings at no cost or subsidized cost
- Refusal of tax / fee payer to accept tax bill from the tax department

In spite of these problems post should be the preferred method of delivery because the postal system has the infrastructure in place to ensure that the majority of bills are delivered within a guaranteed time frame and because of the scale of operation it is a cost effective method of delivery.

### 5.5.2 Hand Delivery of Bills

Some administrations rely on their own staff to deliver bills. Local government officials often know correct locations and the people to whom the demand notices should be given. Other options are to hire postal workers, electricity bill readers, water workers, or other such persons who have frequent contact with taxpayers, to work in their off hours. Private couriers can also be used.

An incentive system that encourages delivery is important. Bills are often not delivered due to lack of incentives. For example, local government officials are often reluctant to deliver bills if they receive neither institutional nor personal benefits. The lowest level of local government (for example, village level) often does not receive any of the tax revenue, or only an indirect and reduced portion). Local government officials are often given no transport money or daily allowances to cover at least the marginal costs of demand notice delivery activity. Given low salaries and other alternatives for compensation, local government officials are then understandably reluctant to exert sufficient effort to deliver the bills.

## 5.4 Cost of Delivery

The administrative cost to deliver a demand notice through the postal system is normally a flat unit price per notice. Thus, the administrative costs for higher-value and lower-value property are identical. Where the mail system is ineffective, the marginal cost for notifying lower-value properties is higher than for higher-value properties. Sometimes lower-value demand notices must be hand-delivered, often in low-density rural regions. The marginal cost is high. To reduce administrative cost and to ensure effective delivery it may be that a combination of postal delivery and hand delivery is appropriate.

## 5.5 Position in Montenegro

The position with the Municipalities that we visited appeared to be

- Little consistency in the prompt issuing of the bills
- Bills issued after the commencement of the fiscal year
- Staged delivery
- Delivery undertaken by staff with inconsistent results

## 5.6 Delivery of Bills in Montenegro

The legal position is that the taxpayer has to acknowledge receipt of the bill when it is delivered and this provides the opportunity for refusal – in which case there is no effective service. Where delivery is undertaken by the postal services then they certify delivery – again this appeared to be hit and miss.

There should be a review of the legal requirement to obtain certification of delivery and provide for the delivery to be effected by post when it delivered to the taxable unit. When the accepted method of delivery is by post then responsibility for delivery the bill is transferred to the Postal Service and normally it is accepted in law that mail is delivered “in the normal course of the post” unless the contrary can be proven.

## 5.7 Payment Procedures.

Payment procedures should be as painless as possible for the taxpayer, yet structured to minimize administrative costs. Countries with reliable postal systems and widespread use of bank accounts minimize tax / fee payer compliance costs by sending a two-part bill and asking for return of one part with a cheque. The tax / fee payer is encouraged to pay by mail, usually to the Municipality cash collection office or a private-sector payment centre.

Countries with unreliable postal systems or cash-based economies must rely on a system of cash-collecting agents such as banks, individuals, or government collecting agencies. Because payments are made in person and in cash, location of revenue payment points and the payment control system requires careful consideration to avoid mismanagement of the collected revenues.

- Payment

The payment process must be designed in such a way that it meets the needs of the community in which it operates. The methods of payment must be sufficiently varied to meet the needs of the taxpayers. The range of methods generally available is:-

- By post,
- Municipal collection office,
- Collection, via the banking system, cash or cheque in person,
- Payment order,
- Payment points through retail outlets and
- Deductions from pay and salaries.

In using the appropriate methods, the administration must have regard to proper cash-flow management. Payment systems must ensure that cash is received proportionate to its use to finance services. Any short-flow in cash will have to be financed by borrowing which of course is costly to the tax administration.

#### 5.8 The Bill as a Decision Notice

At the present time in Montenegro the real estate bill serves a duplicate process:-

- It acts a bill – notifies the taxpayer of his / her liability, and
- It acts as a decision notice in relation to the property assessment and provides the taxpayer with the right to appeal (complain) against the assessment.

#### 5.9 Separating the Decision Notice from the Bill

This dual role should be separated as there is only a need to provide the taxpayer with assessment details when the value is first identified or subsequently amended. There is little point in providing the information on an annual basis if no change has taken place particularly as a right of appeal is given against a value that previously had a right of appeal.

Separation would reduce the volume of paper to be printed and would enable the bill to be produced more expeditiously. It would also enable more cost effective and efficient methods of printing to be explored e.g. high volume printing undertaken by the post office.

## **Section Six**

### **6.0 *Principles of Enforcement***

#### **6.1 Delinquency List**

Revenues enforcement is essential in order to deter noncompliance and fraudulent conduct by tax / fee payers. To combat delinquency, the administration must produce and maintain a delinquency list, issue demand notices, and administer a series of sanctions and penalties. Enforcement action should be commenced within a reasonable of the failure to pay e.g. within fourteen days.

#### **6.2 Debt Limitation**

In most countries there is a “Statute of Limitations” that comes in to force after a period of time when either billing or enforcement fails to take place or information received is not acted upon. This effectively precludes Municipalities from collecting outstanding debts and it is important, therefore, that timely billing and enforcement is undertaken.

#### **6.3 Maintenance of the Delinquency List**

Effective enforcement begins with the delinquency list, which must be produced and maintained in a timely manner so the administration can effectively enforce the payment. The delinquency list is derived from accounts maintained during the receiving and accounting steps of the collection process.

#### **6.4 Notices and Sanctions**

Immediately after the payment due date, a notice should be sent to the delinquent tax / fee payer. This notice informs the taxpayer of the delinquency, provides information on amount due and payment procedures, and outlines the consequences for noncompliance. This notice lets the tax / fee payer know the department is aware of the delinquent account and intends to collect. After this initial demand notice, the department would usually send a variety of follow-up notices about specific sanctions or penalties, depending on the requirements of the law. Taking enforcement action protects the outstanding debt from being statute barred under the Prescription Acts.

Sanctions and penalties should be applied immediately in accordance with the law. The principle is to make nonpayment expensive to the tax / fee payer, so it is cheaper to comply than to continue non payment.

Sanctions are negative incentives designed to encourage tax / fee payer compliance. They prohibit a service to the tax / fee payer (or property) in cases of noncompliance. For example, taxpayers can be required to have a



tax clearance certificate or a receipt in order to receive a service such as passport, birth certificate, pension, automobile license, business license, or government loan. Tax clearance certificates are effective in implementing sanctions. The only shortcoming is that taxpayers are sometime forced to experience inordinate delays and inconvenience due to the inability of the tax administration to perform the necessary checks within a reasonable time.

## 6.5 Tax Clearance Certificates

Under in rem (property based) systems, the sanctions can require a tax clearance certificate for all property-related services (such as loans, building permits, planning and development licenses, utilities). Under the in rem system, it is also possible to use tax liens (caveats or encumbrances) on the property title to enforce the sanction.

## 6.6 The effectiveness of sanctions

The effectiveness of sanctions depends on the ability to cross-reference the services with the tax records. Cross-referencing services with property tax can be quite difficult in the absence of unique taxpayer and property tax identification numbers

Tax clearance certificates and tax liens are very effective ways to apply sanctions. The two approaches should be used concurrently—they are not mutually exclusive. Tax clearance certificates are passive sanctions. That is, the government waits until the taxpayer requires a tax clearance certificate for a specific property-related (or perhaps person-related) service.

Tax liens, on the other hand, require the government to take an active role and aggressively apply a tax lien to the property title.

Tax clearance certificates are not as effective, in general, as tax liens. For example, in the case of loans, most countries only require a tax clearance certificate if the loan is for the specific property. A tax certificate is not required if the property is to be used as collateral for a business loan. A tax lien on the property would be an effective way to impose a broader-base sanction.

Legal systems must specify the precedence of liens. In most countries, government debt (tax liens) has precedence over all other liens, including housing mortgages, business loans, and personal loans. In cases of property foreclosure (sale), the proceeds will first pay the tax debt. The remaining monies will be used to settle other outstanding obligations, with any residual returning to the property owner.

In addition to sanctions, the revenues collection department should use a variety of penalties, for both civil and criminal offenses. Property tax delinquency is usually considered a civil offence punishable by monetary penalty, usually fines and interest.

## 6.7 Principles of an Enforcement System

There are two principles to follow in establishing an enforcement system:

- Fairness and
- Efficiency.

## 6.8 Fairness Principle

The fairness principle seeks to minimize burdens placed on delinquent taxpayers who are experiencing temporary financial distress yet takes into consideration the resulting diminished level of service to those who do pay their real estate taxes on time. Fairness also dictates that the taxpayer should be protected against unscrupulous tax officials.

## 6.9 Efficiency Principle

The efficiency principle gauges the ability of the system to collect a large portion of overdue payments after they become delinquent, with minimal collection costs and market-behavior distortions.

## 6.10 Penalties

Penalties for non-payment of taxes / fees should be structured to make it increasingly expensive for the tax / fee payer to remain in non-compliance. The purpose of the penalty structure is not revenue per se but compliance.

The structure of the penalty usually involves a combination of unit or percentage fines, interest, and ultimately seizure and sale of the property. The fines and interest should be structured carefully. It is important to synchronize all the other to minimize administrative and compliance costs. Often a separate tax enforcement law applied to all taxes mandates the fines and penalties within a country.

Interest and fines are distinct and separate instruments. Interest on outstanding tax / fee liability is charged mainly to discourage tax / fee payers from delaying payment to secure, in effect, an interest-free loan from the government. Therefore, to discourage this form of delay tactic, it is important to automatically charge effective interest rates higher than the prevailing bank rates. A charge set exactly at the market rate does not adequately penalize late payments. Rather, it suggests the government is a lender of the delinquent amount at the going market interest rate. If set sufficiently higher than market rates, the interest rate does include a penalty (the difference between the market and the government rates). Unfortunately, the interest rate used by most governments tends to be less than the market interest rate, thus actually providing a subsidized loan to the delinquent tax / fee payer. In Montenegro the interest rate is based on the savings rate and not a commercial loan rate. This does not act as an incentive to payment.

In addition, including the penalty in the interest rate obscures the distinction between interest and fine for both the tax / fee payer and the administration. For these reasons, it is recommended that the penalty structure contain both an automatic interest charge and an explicit fine (such as a late payment charge).

### 6.11 Enforcement of Interest and Fines

To enforce interest and fines, the revenues department should have the option to place a lien on the property where there is a registry system. The lien can then be recovered through a process of foreclosure as stipulated in the country's law. If a registry system does not exist, the revenues department must have the option to seize and auction the property to enforce the liability.

Procedurally, the revenues department should be required to follow legally mandated notification requirements, which could include publication of the delinquency list in a major newspaper. This would have the effect of encouraging compliance in order to avoid a potential "loss of face" (pride). In countries where auction is not politically or legally possible, the potential loss of face through public exposure may provide the necessary incentive for payment.

### 6.12 Seizure and Auction

Ultimately, the revenues department must have the right to seize and auction delinquent properties. If seizure and auction is not permitted or exercised, all previously imposed interest and fines are not effective because taxpayers know the amounts are not recoverable.

The law must be explicit on the procedures for seizure and auction. Again, the procedures should be fair and efficient. Clear deadlines should be established for the various steps: demand notice, warning letters, periods to respond to each demand, lien release period, final warning notice, judgment, release period, and sale or auction.

To be successful, regular auctions require a legal cadastre, a legal system that permits lien enforcement, a pool of investors willing to invest in real estate and other delinquent taxes, and a legal system that protects tax / fee payer rights in cases of procedural error. In the absence of a legal cadastre, governments either resort to over-the-counter sale or develop an alternative. An over-the-counter sale is politically difficult in any country and usually explains why seizure and auction is not enforced. As an alternative, many countries allow the seizure and sale of movable property—similar to the sale of tax liens in that the seizure and auction only covers the amount of the liability rather than the entire property.

Most countries find it difficult to undertake the final enforcement step of seizure and auction. Land ownership is an extremely political issue. Within countries with customary land tenure systems, selling land for debt recovery is virtually impossible. Few of the non-industrialized countries have been able to seize and auction for non-compliance. Seizure and auction not only recovers outstanding taxes / fees on specific properties. They also send signals to other tax / fee payers and encourage compliance. Thus, all enforcement activities should be accompanied by a massive public relations campaign, the more the better.

### 6.13 Blocking of Services

Blocking of services is not allowed in many countries because of issues related to basic human rights. In Montenegro some Municipalities do block services for non payment although there is no constitutional right to do so and the Courts have prohibited such practices.

## Section Seven

### 7.0 *Framework for Enforcement*

#### 7.1 The Framework

The legal framework for property tax enforcement includes:

- statutory notices,
- summary jurisdiction (legal process), and
- access to remedies and sanctions.

#### 7.2 The Legal Process

The notices authorized, and often required, by statute may include the original demand (payment notice), a reminder, a final reminder, and if necessary a notice of legal process. Legal process is a formal action that may include a public hearing. The outcome of the legal process is binding and enforceable by the courts. Other effective remedies for the jurisdiction are the removal and sale of goods; deductions from pay, pensions, or bank accounts; liens; legal charges; and write-offs. Even more extreme sanctions are eviction and the sale of the dwelling, imprisonment, and insolvency.

- *Demand for Payment*

Liability for local taxes / fees is established by an entry in the tax role. However there should be no duty to make payment unless a demand notice has been served on the chargeable person requiring payment to be made.

- *The Reminder Notice*

A reminder notice should be served on any person against whom an application for enforcement is made. This notice is in addition to the demand notice, and is to state every amount in respect of which the taxing authority is to make application. A reminder notice may be served at any time after the sum has fallen due.

Where a demand notice has been served on a tax / fee payer and there has been a subsequent failure to pay an instalment and a final notice has been served upon the delinquent tax / fee payer the authority's obligation to remind has been fulfilled.

- *Commencement of the legal process*

Application for enforcement is commenced by making an appropriate complaint to a legal officer or equivalent requesting the issue of a written notice (*summons*) directed to that person to appear before an appropriate court to show reason why he has not paid the sum outstanding.

- *The summons to attend the hearing of the legal process*

- Taxing authorities should ensure that where a summons is issued, they are properly signed or stamped by them. The summons must be served a reasonable time before the hearing and it may be served by the taxing authority or other person to whom it is addressed for that purpose.

### 7.3 Service of Summons

The enforcement provisions should state a summons may be served on a person:

- by delivering it to him,
- by leaving it at his usual or last known place of abode, or in the case of a company, to its registered office,
- by sending it to his usual or last known place of abode, or in the case of a company to its registered office.

If a summons is served by post then service is deemed to be effected by properly addressing, prepaying and posting a letter containing a summons, and unless the contrary is proved, to have been effected at the time at which the letter would have been delivered by ordinary post.

If the summons is served by post and returned undelivered that, of course, is proof that it has not been delivered by the ordinary course of post, and it will not, therefore, have been legally served; it must then be served by an alternative method.

### 7.4 Failure to Appear

If the person summoned fails to appear at the enforcement hearing, service of a summons in manner authorised above shall not be treated as served unless it is proved that the summons came to his knowledge. For that purpose any letter or other communication purporting to be written by him or on his behalf in such terms as reasonably to justify the inference that the summons came to his knowledge shall be admissible as evidence.

### 7.5 The Enforcement Hearing

The summons is returnable at the time and place appointed. A taxing authority may authorise any employee or officer of that authority to prosecute or attend on its behalf, or to appear on its behalf in proceedings before an appropriate court. The employee or officer may conduct proceedings although he is not a lawyer holding a current practising certificate.

### 7.6 Proof of Service

If the person summonsed fails to appear in response to the summons, a legal statement may prove service.

### 7.7 Proof of Liability

The authorised tax official may have to give evidence on oath that the necessary statutory procedures have been followed. Legislation should provide that a person who is aggrieved by certain matters may appeal to the Local Taxation Tribunal.

#### 7.8 The Enforcement Order

If the court is satisfied that the sum in question has become payable by the tax / fee payer and has not been paid. The court is required to make an enforcement order in respect of an amount equal to the sum payable and the costs reasonably incurred by the applicant in obtaining the enforcement order. If the statute does not provide a scale of costs and fees, it is for the court to decide these.

#### 7.9 Enforcement remedies available for a property tax:

- Removal and sale of goods;
- Deduction from earnings;
- Deductions from state benefits;
- Bankruptcy;
- Committal to prison

#### 7.10 Request for information

Where an enforcement order has been made and the sum shown on the order remains wholly or partly paid; the taxpayer will be under an obligation to supply certain relevant information to the taxation authority.

The information, which may be the subject of such a request, is:

- information as to the name and address of an employer of the tax / fee payer;
- information as to the earnings or expected earnings of the tax / fee payer
- information as to deductions or expected deductions from such earnings.
- information as to the tax / fee payer's work or identity number in an employment, or such other information as will enable an employer of the tax / fee payer to identify him; or
- information as to sources of income of the tax / fee payer other than an employer of his.

The request for information must be made in writing and provided the information required falls into the above categories and is in the tax / fee payer's possession or control, he will be under a duty to supply the information within a specified time of the request being made.

In many cases, the taxation authorities will not have up-to-date information of this kind about the tax / fee payer. This, together with the fact that some of the options for enforcement will be of use in some circumstances but not in

others, suggests that the request for information may be the first step in the enforcement process.

Having supplied the information to the taxation authority, the individual concerned will not be under a duty to volunteer information to the authority if his circumstances change. But the authority will be able to send a new request for information at any time during the period that the debt is outstanding.

#### 7.11 Deduction from earnings

Where an enforcement order has been made, the authority may make an order to secure payment of the sum outstanding. Before making this deduction the authority will have satisfied itself that the tax / fee payer is in employment by making a request for information as detailed above.

The deduction from earnings order will be addressed to the person who has the tax / fee payer in his employment and will operate as an instruction to that person to make deductions from the tax / fee payer's earnings on each pay day and pay them to the authority. The order shall specify the sum to which the order relates, the rate at which the tax / fee payer's earnings are to be applied to meet the sum by way of deductions from his net earnings, and the period within which an amount deducted is to be paid to the taxation authority. The order will remain in force until discharge or the whole amount to which it relates has been paid.

The taxation authority may serve a copy of the order on a person who appears to have the taxpayer in his employment; and a person on whom it is so served who has the tax / fee payer in his employment shall comply with it. The taxation authority when making a deduction of earning order on the employer must also serve a copy on the taxpayer.

#### 7.12 Deductions from State Benefits

Where an enforcement order is made against someone who is in receipt of a state benefit, the taxation authority may apply for deductions to be made from benefit. An amount will be deducted each week until the amount specified in the enforcement order has been paid off.

#### 7.13 Removal and sale of goods

Where an enforcement order has been made, the authority, which applied for the order, may levy the appropriate amount by removal and sale of goods of the tax / fee payer against whom the order was made.

The appropriate amount for levy shall be the aggregate of an amount equal to any outstanding sum covered by the enforcement order, and a sum in respect of charges in connection with removal and sale.

#### 7.14 Bankruptcy

A taxation authority may wish to consider a bankruptcy order if the tax / fee payer has no assets.



### 7.15 Committal to Prison

Where a taxing authority has sought to levy an amount by removal and sale of goods under the enforcement order, and it appears to the authority that no or insufficient) goods of the tax / fee payer can be found on which to levy the amount. The authority may apply to commit the tax / fee payer to prison.

On such application being made the court shall (in the tax / fee payer's presence) inquire whether the failure to pay which led to the enforcement order concerned being made against him was due to his wilful refusal or culpable neglect.

Therefore if the taxation authority has not attempted any remedy other than distress it must have satisfied itself, by looking at the information held on the taxpayer, that none of the other available remedies would have been more effective.

## Section Eight

### **8.0 Office Administration**

#### 8.1 Funding of administration

Budgets translate resource requirements in monetary terms. Many factors affect funding requirements. Major factors are

- work loads or required outputs and
- inputs or resource requirements.

Available technology and regional differences in the cost of living affect the latter factor. The local economy affects the work load, because high rates of growth and new development mean many new properties will be added to the assessment rolls each year. Inspecting new properties is more expensive than making routine maintenance inspections, because of the amount of detailed information to be obtained and because of per-parcel basis than more densely developed areas. Concentrations of commercial and industrial property also imply greater per parcel costs, as does the responsibility to assess personal property. Finally, assessment practices have an effect.

Developing a budget for revenues administration will require analysis of patterns as well as total expenditure figures. Patterns can be examined in two ways:

- objects of expenditure and
- programs or activities.

In analyzing a revenues administration budget, it is important to identify any significant categories of administrative costs that are not directly charged to the revenues administration budget (such as employee fringe benefits, office space charges, and computing expenses).

Experts agree that a reasonable cost of billing and collection administration is about 2 percent of total property tax revenues.

#### 7.2 Post administration

Internal fraud is particularly damaging to a local authority's reputation. So it is important they have in place a series of controls to ensure that the risk of internal fraud is minimised.

Managers at all levels are responsible for ensuring that employees are aware of and compliant with the Municipalities' financial regulations and Standing Orders. Managers must also obtain assurance that the risk of internal fraud arising out of poor working practices or ineffective internal control systems are minimised. In particular, they must ensure effective control and security over post opening internal control mechanisms and payment and accounting mechanisms.

Secure post opening procedures are vital to provide an effective, economic, safe and efficient postal receipt service. Controls should be formulated and maintained to ensure that:

- Controls are in place to ensure that post is sent out on a timely basis and that the volume of items sent out from the Municipality are known and this minimises the risk of lost or stolen mail.
- In terms of incoming mail controls should ensure that fraudulent documents do not enter the system and where payments are involved controls are in place to ensure payments do not get lost or stolen

It is essential that Municipalities have sufficient and secure resources to efficiently handle the post. The types of control that should be considered are:

- a programme of reviewing its post opening procedures
- monthly management checks on post opening procedures, including recording and handling of valuables
- documented post opening procedures
- post opened in a secure and controlled area
- post opening with a minimum of two employees and ensures a daily log is kept of all employees involved
- has adequate separation of duties for post opening employees
- post received and post for dispatch to be stored in a secure, preferably locked, area with restricted access
- all post is stamped with the date of receipt
- assurance that all post is being distributed to the right person or section when original documents are received by hand
- records items of value immediately in a valuables register, which should be passed securely to the cashier or designated officer, who should sign to acknowledge receipt
- all post distributed within one working day.

The same principles apply in relation to bills, notices etc. that are hand delivered by permanent or temporary staff where it is important to have controls in place to verify delivery has taken place.

### 8.3 Storage of data

The method of data storage should be evaluated very carefully. Paper-based storage can be cost effective (no expensive computers needed!), but there will be a need to ensure that there is sufficient space within the office. The difficulties associated with misfiling, etc. will however become inevitable, though, and the need to archive will also surface eventually. These shortcomings lead to the consideration of new technology as finances become available.

#### 8.4 Filing and document management

The filing system used in the collection office is one of the fundamental parts of the office organisation, unless it is an office that has migrated to a paperless document management system. Even the paperless office needs some filing space for books, documents and files that cannot be dealt with by an electronic document management system. Without a good filing system the average office will soon cease to function efficiently.

We examine below various systems that can be found in many offices - but for any system the quality of filing will only be as good as those people that use it. It is important that proper procedures and routines are developed around the use of the chosen filing system and that they are enforced.

#### 8.5 Paper Based Systems

A common traditional filing system is where all the relevant papers relating to a case are placed in a folder and the folder placed in a cabinet. This system works well and has been in operation for many years. Papers filed in lever-arch files are another basic filing system.

However, such systems suffer from two big disadvantages.

- they take up a considerable amount of space;
- they take a considerable amount of staff time in finding and re-filing files.

There are various filing systems that reduce these disadvantages. Rolling systems of filing racks are available, whereby the filing shelves are on rollers and can be pushed together when not in use with considerable space savings. Also filing cabinets are now designed in various shapes and sizes to maximise use of space. Most manufacturers give comparisons as to how much space you save with their systems as opposed to traditional 4-draw filing cabinets. These systems usually rotate the files vertically or horizontally.

Some of these systems are operated manually and some are hydraulic or electronic, depending on their size and design.

To assist in the problem of file finding and mis-filing, various lateral systems have been evolved. Each file is given a colour coded index tab at the end of the file which, when filed with others in the same range, gives a solid band of colour along the shelf. If a file is then misplaced it will be obvious what has happened when, for instance, a blue file appears in a red band. Other facilities include special cards to be inserted in the system, when a file is removed, containing information as to who has got the file.

#### 8.6 Alternative Document Management Methods

Computerised document management systems are available and may be appropriate to replace or supplement more traditional paper handling within the revenues office environment.

They include the following: -

#### 8.6.1 Microfilm and Microfiche

Documents are filmed and filed within the computer-aided system. The system is compact, releasing office floor space for other uses.

All documents are indexed using the computer software which is part of the package. Indexing can be carried out when filming, or as a separate stage of the process.

Documents are retrieved using the computer and can be printed off on the associated printer. Once viewed and / or printed, the document image is re-filed within the system.

The original documents which have been filmed can be destroyed, if required.

There are many microfilming systems on the market, suitable for all sizes of application. Microfilm is very suitable for archiving all documents which would normally be filed away or put into an archive.

Because there is some manual intervention involved in filming and the control of the process microfilm is being superseded by more sophisticated "document image processing" using scanners and CD-Rom storage. It is, however, still a very successful medium for long term archiving, however.

Microfiche is a similar medium to microfilm but can hold several documents on one fiche or film square. Microfiche are created by filming documents required to be grouped together. These are then indexed and stored away. Maps and large documents are suited to microfiche.

They can be read by use of stand-alone microfiche readers or by use of computer-aided retrieval systems, in a similar manner to microfilm. The same advantages and disadvantages apply as to microfilm archiving.

Microfilm and microfiche enable the original documents to be destroyed and recreated documents are fully acceptable to the courts as evidence.

#### 8.6.2 Document Image Processing (DIP)

Imaging, storage and retrieval of documents is handled by computerised scanning and storage media using optical discs or CD-Rom.

All in-coming mail and other documents coming into the collection department are logged, scanned and referenced onto the system. The original documents can be destroyed.

Staff have access to all filed mail and documents via their PCs. The documents are held against whatever reference system suits the users best. In real estate tax, for example, the property reference number could be chosen. All mail would be held in the system in reference and date sequence. A correspondence history for any taxable property or liability could be called up on the system and read, or printed-off, as required.

Office space can be saved; staff would not have to spend time extracting files and re-filing them and getting up from their desks to do so. Customers find that their correspondence and previous papers are available very quickly and staff can locate and discuss cases with customers, whilst on

the telephone and looking at retrieved documents on their PC screen at the same time.

The “lost file” syndrome, which affects all offices, but is especially problematic in busy offices, such as collection offices, is minimised on a DIP system.

#### 8.6.3 Allocation of work using DIP Systems with Document Management / Workflow

Document Image processing systems are not only capable of use for the archiving of documents. If part of a total document management system it can also be used for work allocation and monitoring.

Mail and documents entering the collection office can be routed, via the DIP system, to the staff, or teams, dealing with the various aspects of collection work, using the document management and workflow monitoring systems.

For example, mail can be scanned, referenced into staff electronic “in-trays” within the system. Staff can view the contents of their “in-trays”, deal with the contents of the mail etc. and refile the documents on completion of each task.

Allocation of work by means of an integrated DIP / DM system also enables managers to generate performance statistics direct from the system. Mail levels are recorded; internal memos and other documents can be counted; workloads for individuals and teams can be monitored and backlogs spotted and alleviated, before they become critical.

The time and space previously allocated to the traditional filing system can be used to provide better services to the public and to the employing authority.

## **Section Nine**

### **9.0 *Accounting Procedures and Practices***

#### **9.1 Accounting Integrity**

Any accounting process for local or property taxes should have proper accounting integrity that will include adequate controls to ensure correct and reliable accounting processes. The individual transactions should be managed to ensure the following:

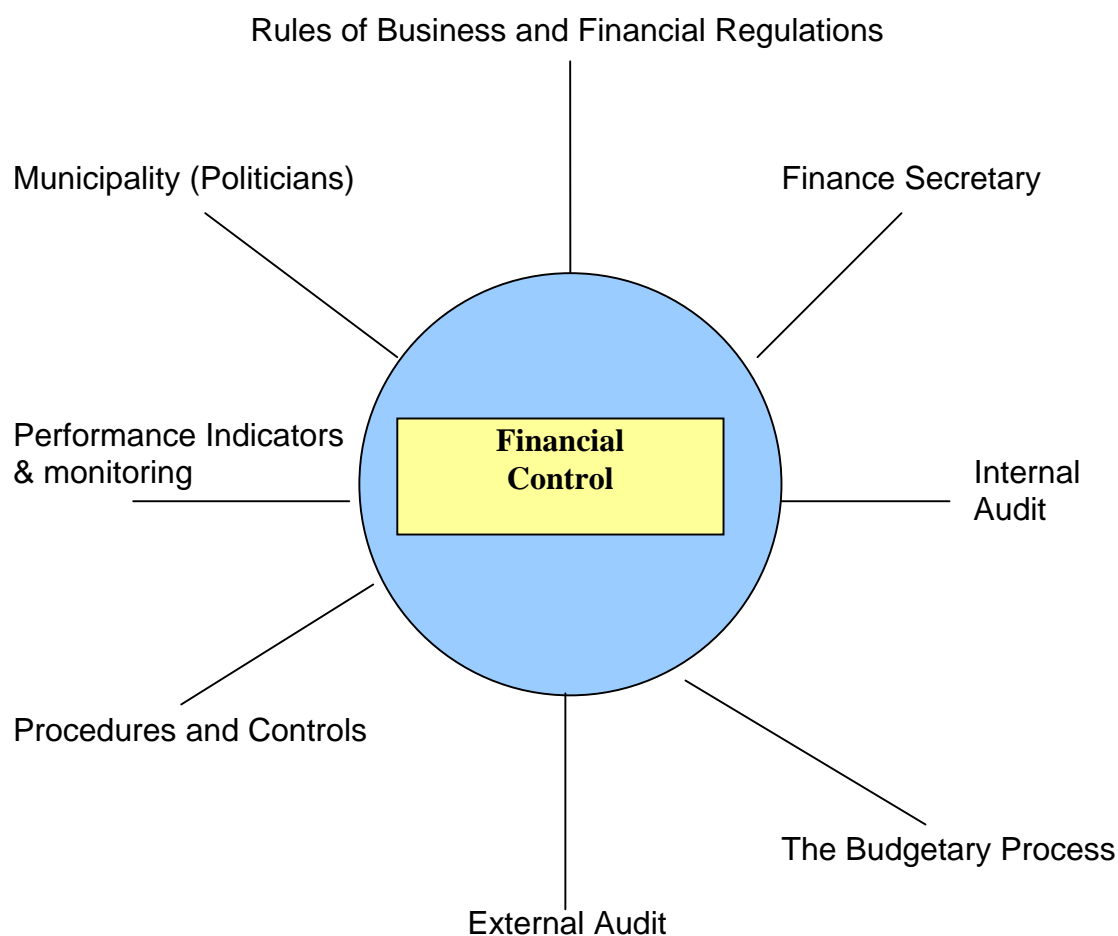
- An officer has defined responsibility for finance
- Allocations of payments correctly
- Controlled increases and reductions in tax liability
- Arrangements to ensure that all unallocated payments are properly accounted for
- Procedures to ensure that accounts are properly closed and balanced and that all amounts outstanding or overpaid are carried forward to the next accounting period
- Sufficient records must be maintained to ensure balances are pursued.
- There must be adequate audit trails and internal accounting processes must be subjected to rigorous audit
- The annual accounts of the Municipality should be subjected to external audit

#### **9.2 Financial Management and Control**

It is essential that every organisation has good management and control of its financial affairs. Local Government raises and spends large sums of money each year, so it is obvious that the financial management of the authority should be efficient, effective and economic. It is also essential that adequate measures are taken to ensure that the Municipality keeps within the law and that the assets of the Municipality are safeguarded by detailed procedures for initiating, carrying out and recording all financial dealings and transactions.

#### **9.3 The Financial Management of a Municipality**

Financial management and control should be exercised in Municipalities by a series of measures as shown in the following chart: -



#### 9.4 Political responsibility

In a democratic organisation such as a Municipality there will be elected politicians responsible for overseeing the financial affairs of the Municipality. They will oversee allocation of resources and consider the financial effects of new legislation on the finances of the local authority.

#### 9.5 Principal responsibilities

May include making decisions on the following:-

- Approving the annual budget process and determining the level of local and real estate taxes;
- Deciding the content of the Municipality's financial regulations;
- Approving borrowing and banking arrangements;
- Approving arrangements for insurance;



- Receiving reports on financial matters;
- Receiving reports from Services on new projects and initiatives; planning issues etc.
- Receiving reports on restructuring and resource issues
- Receiving the external auditors report;
- Allocating additional resources to priority areas;
- Looking at all new legislation affecting the Municipality and its affairs.

## 9.6 Rules of Business and Financial Regulations

Rules of Business are the formal written rules by which the Municipality conducts its business; for example – the way in which meetings may be called and the rules for the conducting of meetings of the Municipality and its Committees, amongst other things.

As part of its Rules of Business, every Municipality should have a set of “financial regulations”, approved by the politicians. These are essentially a set of rules covering the financial procedures used by the Municipality and should be drawn up in accordance with good accounting practice.

They cover such items as budget process, the rules on transferring of funds for one purpose to another purpose, procurement and tender procedures, cheque signature authorities and certifying invoices for payment. All statutory and non-statutory income raised will be handled by reference to a Municipality’s financial regulations on the raising and control of accounts.

## 9.7 Finance Secretary

The position of Finance Secretary is an essential post and is responsible for the finances of the local authority. This officer should be a senior position responsible to, but independent from, the Mayor. The Finance Secretary should, preferably, be a qualified accountant or at the very least a person who has a sound knowledge and understanding of finance.

Each Municipality should have in place rules that impose specific obligations on that person in relation to:-

- Systems of Accounting control;
- Forms of account and balance sheets;
- Internal Audit.

The Finance Secretary should have a measure of independence from the Mayor and the Assembly.

#### 9.8 The Role of the Mayor

The Mayor must see him or herself as the trustee of the taxpayers' money. Their financial administration must be guided by this duty and their main responsibilities should be exercised through the role of the Finance Secretary, as follows:-

- Financial advisor to the local authority. Each report to the local authority should have its financial implications clearly outlined.
- Management Accountant. The Mayor must ensure there are records maintained of all the Municipality's financial transactions in order that they can retain control of the Municipality's finances.
- Treasurer. The Mayor acts as custodian of the Municipality's funds. They have a duty to the local authority and should not be able to plead the orders of the Municipality for his/her commission of an illegal act. Indeed, sometimes it may be necessary to force the local authority to reconsider an action involving finance that will be outside the law (Known in the UK as "Ultra Vires").
- Internal Auditor. The internal auditor should be an official who is not part of the collection office but who from time to time checks the actions of the collection office in relation to various aspects of the administration of taxes. He should report directly to the Mayor / elected representatives.
- Other duties.

Due to the nature of local authority finance, there are a number of other duties that the Mayor, through the finance secretary, should be responsible for:-

- ensuring adequate accounting systems are set up and maintained;
- ensuring all accounts are balanced at the end of each financial year;
- discussing any adverse comments on the authority's practices with the external auditor, when the auditor considers proper practices have not been followed;
- responsibility for the systems of revenue collection to the Municipality and
- for the maximisation of its assets by investment.

## 9.8 The Budget Process

Each year the local authority should estimate how much it will spend the following year in order to maintain and develop its services.

Each cost centre or department will look at its current revenue spending (money spent on operating its services) and try to estimate what costs and price increases there will be for the following year, item by item, due to demand etc. Also an additional amount is allowed for inflation, pay rises and so on. These individual estimates for each cost centre are then collated into an overall “revenue budget” for the authority.

## 9.9 Capital Budget

A separate budget should also be constructed for the Municipality’s capital (or “one off”) expenditure. So a list of approved projects is costed and the revenue implications (the equivalent of loan repayments) are added into the revenue budget. The actual amount of money available for capital projects is therefore broadly limited by the amount of money the Municipality has available and the amount of money given to it by the Government to support capital spending by the way of grants and so on. Capital expenditure should not be mixed up with revenue expenditure. For example, a mailing machine may cost €100,000 (capital) to purchase, but its revenue implication may only be €2,000 per year (revenue) to maintain.

## 9.10 Financial Procedures, Accounting Rules and Control

It is necessary that the Municipality has information on how its actual spending measures up against its budget, so that areas which are overspending or under-spending can be identified and remedial action taken.

All systems dealing with money will need to be reconciled to ensure all monies have been accounted for. In addition, many controls and procedures will inter link or require two people to check each other as part of the normal procedure.

This self checking process is called “**internal check**” and is an essential part of all financial systems within Revenues, to ensure all monies are correctly allocated and to help prevent internal fraud. For example, refunds may be calculated by one official and authorised by another; debtor accounts raised by the service department, but the invoice despatched by the income section, and so on.

## 9.11 Internal Audit

Internal audit is an essential function should have the following objectives:-

- To secure the installation of soundly based systems of control within each area of departmental responsibility.

- To review and, where necessary, make recommendations for the improvement of systems, controls and procedures in order to ensure that they are both efficient and effective; that they remain adequate in the light of changing circumstances and are adhered to in practice.
- To assist in protecting assets and interests of the Municipality by carrying out a continuous examination of activities in order to detect fraud, misappropriation, irregular expenditure and losses due to waste, extravagance or mal-administration.
- To monitor the use of resources in the pursuit of defined objectives of the authority.

Internal auditors will ensure all internal controls are in place and are not being circumvented in any way. They also act as the “eyes and ears” of the authority in departments so that senior management can keep in touch with what is happening throughout the Municipality. Auditors should draw up an annual plan each year of projects they intend to undertake. As it is not possible to cover every area every year, the annual plan may be part of a bigger plan covering up to five years so that within that period all areas are covered once with priority areas, such as benefits, being covered much more frequently.

#### 9.12 External Audit

All Municipalities should be subject to some form of external scrutiny to ensure probity and compliance with central government objectives. These auditors should have extensive powers and local authorities should co-operate fully with them. Their primary role will be to scrutinise the annual accounts; assist in protecting assets and interests of the Municipality and carry out an examination of activities in order to detect fraud, misappropriation, irregular expenditure and losses due to waste, extravagance or mal-administration.

They will report to the local authority through an annual Management Report on any areas of concern; they will also commend best practise and achievements. In rare event they may have to qualify their report by saying that they cannot sign-off the financial accounts for lack of information or because of other deficiencies.

#### 9.13 Fraud Prevention

The **whole** of the framework of Financial Administration and Control should be designed to safeguard the finances of the Municipality and ensure that all financial matters are dealt with efficiently, effectively and economically.

Within this framework are specific procedures that are designed to prevent fraud arising, both internal and external. However, it is not only auditors that

work to prevent fraud; the whole of the financial structure and administrative procedures, including the political structures and the role of the Finance Secretary are designed to safeguard the local authority's finances from fraud and error.

Rules of Business, financial regulations and internal checks all form part of this defence against fraud and error. All staff should be trained and aware of the correct procedures to ensure compliance. In revenue collection, procedures manuals will help all staff, from managers to front-line, to maintain high standards and ensure proper control.

#### 9.14 Types of Fraud

Where the collection of money is involved there is the potential for fraud in a number of ways and for officials to receive financial advantage:-

- Officials not recording new properties
- Bills being suppressed
- Monies not being collected
- Falsification of tax records

Fraud can be minimized by ensuring procedures of internal check are in place and officials are adequately paid for the work they undertake.

#### 9.15 Receiving and Accounting for Revenues

Revenues must be collected. The revenue received should be properly accounted for. Payment procedures should be simple and nearly painless to minimize compliance costs. At the same time, the system must enable the administration to maintain the integrity of the funds collected and generate an accurate and timely delinquency list.

Tax / fee payer involvement with the charges is primarily through the payment process. Administrators are responsible for other functions; tax / fee payers are only required to pay the bill. Thus, most tax / fee payer compliance costs are calculated from the time and effort required to pay the liability. The goal should be reducing compliance costs while keeping administrative costs within control.

#### 9.16 Principles

Minimize compliance costs by simplifying the payment procedures.

- Minimize administrative costs by simplifying payment procedures, and reducing the number of transactions, and
- Simplifying the payment control system.

There is a need to recognize that there is a trade-off between compliance and administrative costs.

### 9.17 Accounting principles

Any accounting process for local or property taxes and fees should have proper accounting integrity that will include adequate controls to ensure correct and reliable accounting processes. The individual transactions should be managed to ensure the following:

- Allocation of payments correctly
- Controlled increases and reductions in tax liability
- Arrangements to ensure that all unallocated payments are properly accounted for
- Procedures to ensure that accounts are properly closed and balanced and that all amounts outstanding or overpaid are carried forward to the next accounting period
- Sufficient records must be maintained to ensure balances are pursued.
- There must be adequate audit trails and internal accounting processes must be subjected to rigorous audit
- The annual accounts of the tax authority must be subjected to external audit

### 9.18 Amendment of administration records

Promptly updating ownership name and address records and legal descriptions smoothes work loads and reduces confusion. Transactions after the assessment date are made to the working draft of the next year's roll. Multi-year processing also smoothes work loads and reduces ambiguities in data. It makes possible better quality control. Essentially two assessment data files are maintained - a current-year file and a next-year file, which starts out as a copy of the current-year file. Changes in ownership, changes in legal descriptions, new construction, and the like are made to the next-year files as they occur rather than being held in abeyance.

### 9.19 Administration of Exemptions

Proper administration of exemptions requires that eligibility requirements be met. Most exemptions require an initial application and periodic renewals. Documents or data establishing eligibility may be required. The applicant must sign the initial or renewal application attesting to the correctness of the information on the application or that the applicant is eligible for the exemption. It is not good practice to accept applications without question or verification. This may require field checks to verify that property is being used for exempt purposes. Sales of exempt properties should be flagged so that exemptions are removed in the next fiscal year unless the new owner establishes eligibility for the exemption.

## Section Ten

### **10.0 Data Security**

Data maintenance is time-consuming and costly. Only essential data should be collected and maintained. Essential data elements include those needed in valuation or in support of values, those needed for revenues administration, and those needed by other users of multipurpose information systems.

#### **10.1 Data Security Principles**

Any data gathered to administer the property tax system must be collected and managed in a lawful manner. The typical rules which govern the management of data are as follows:-

- The data must be processed fairly and lawfully
- The data must be held for the lawful purpose for which it was gathered
- It must not be unlawfully disclosed to a third party
- It must be adequate for the purpose, relevant and not excessive
- The information must be kept up to date and must not be kept longer than necessary for the lawful purpose
- The data should be accessible to the tax subject to ensure that it is accurate
- The data should be kept secure

#### **10.2 Personal data shall be processed fairly and lawfully.**

This rule simply requires that personal data are processed “fairly and lawfully” and expressly provides that personal data are not to be treated as processed fairly unless, as far as practicable, certain criteria are met. These include: -

- Informing data subjects of the identity of the data controller and any nominated representative,
- Informing the data subject of the purposes for which the data are to be processed.
- The individual has given his/her consent to the processing
- The processing is required under a legal obligation
- The processing is necessary to protect the vital interest of the individual, or
- To carry out public functions in the public interest

Strict conditions should apply to the processing of **sensitive data**. This category includes information relating to racial or ethnic origin, political opinions, and religious or other beliefs, trade union membership, health, sex life and criminal convictions

10.3 The personal data must be held for the lawful purpose for which it was gathered

This rule is essentially self explanatory but does mean that personal data collected for the purposes of billing and collection should only be used for those purposes.

10.4 It must not be unlawfully disclosed to a third party

Again this rule is self explanatory and simply means that personal data should be kept secure and not divulged to third parties not involved in the collection process

10.5 Personal Data should be adequate, relevant and not excessive.

There should be enough information to be able to process, for example a surname and initials is often insufficient to properly identify an individual. If someone has challenged the accuracy of the data held, the lack of a marker indicating that challenge may mean that inadequate data are held to protect the person from further enforcement action.

10.6 Personal Data shall be accurate and, where necessary, kept up to date.

Measures should be in place to ensure data accuracy, such as sending a copy to the data subject for them to check the details. Where this is not possible or desirable, there should be some mechanism for verifying the information.

Particular problems arise where information is given anonymously. Data obtained from third parties should be clearly marked as such. Where inaccuracy is likely to cause problems for the individual, even more care should be taken to ensure the information is correct.

10.7 Personal data processed for any purpose or purposes shall not be kept for longer than is necessary for that purpose or those purposes.

Staff should be provided with details on how long information is to be held, the organisations record retention policy should contain a simple table telling users what data is to be held and for what periods (minimum and maximum).

Data on people should not be held "just in case" or because "it might come in handy one day". Retention periods will depend on the nature of the data and whether there are legal requirements to hold data for a specified period.

10.8 The personal data should be kept secure



Those controlling data (data controllers) should take security measures to safeguard personal data and appropriate technical and organisational measures should be taken to prevent the unauthorised or unlawful processing or disclosure of data.

There should also a requirement for data controllers to ensure that where a data processor (e.g. outside contractor) acts on behalf of the controller there is a written contract between the parties whereby the processor agrees only to act on the instructions of the controller and to abide with the provisions of the *security principle*.

#### 10.9 Open Data

It is a clear principle that personal data should be kept secure but this principle should not apply to all data. In the context of tax collection data that relates to the payment history or personal details of age, sex or ethnicity should not be made publicly available.

However, information relating to the property lists should be made available so that taxpayers can check that all taxable units have been included

## **Section Eleven**

### **11.0 *Management information and Controls***

#### **11.1 Management Information**

Advances made in the development of computer technology have given a powerful tool to management in any organisation seeking to develop new methods of controlling its business. An on-line environment allows the user to be inter-active with the system and the development of real time computing gives the opportunity for immediate processing of transactions so that the precise position at that point in time can be established.

Information held in such systems is readily capable of instant amendment by the user by direct input via Visual Display Units (VDU) or, where there is a large volume of input, batch mode may be used.

#### **11.2 Flexibility**

The form of presentation of the available information is of major importance and it is essential that in the design of the system access to any information held is sufficiently flexible to provide for the changing needs of the user over the life of the system. This latter point becomes important when one considers that many computer systems may be in service for ten years or more before being replaced or updated. Flexibility must be achieved for two main reasons.

(a) Although the needs of the user may be exhaustively researched during the development of the system, there will still be a need for adjustments to be made when the system goes live as no amount of study of systems specifications can compare with first hand operation by the user.

(b) The system must be capable of being easily amended should the need arise to accommodate changes in policy or to comply with new legislation. In this respect the highest standards of systems documentation must be maintained.

#### **11.3 Access to Information**

A criticism often put forward by the users of computer installations and systems is directed at a limitation on the access to information.

Where a system is operated in batch mode environment the user would normally have to wait for input in terms of payments, file amendments and transactions to be processed and the main computer files updated, before a hard copy report was produced to advise of the position as at the date of the report. Internal pressures on the data processing department serving many different users would on occasion dictate that such reporting to a single user was only possible on a regular basis of perhaps

once or twice weekly. In other words, information vital to a manager to enable control, forward planning and revenue collection is often received too late to enable effective action to be taken.

#### 11.4 Cooperation with Computer Personnel

The advent of the computer on-line environment offers an opportunity for managers to co-operate with computer staff in the creation of systems that will combine the best aspects of any manual system with a high degree of automation, control and the provision of all important management information, via V.D.U.'s. The aspect of cooperation between the user and computer personnel cannot be overstressed since the full requirements of the user must be in-built into the system at the outset on the basis that the user can only expect to benefit from the data that exists within the system. The move towards the concept of a data base approach, where systems for more than one departmental user are based on as much common data as possible, avoids the need for storage of duplicated information.

#### 11.5 Property and Person Databases

Where the collection of revenues due to a local authority is concerned the logical units against which to hold data are those of property and persons the latter containing the personal details of the debtor. The property data and to some extent the personal account holder's details will be of potential use to other user applications such as land use, income collection, licensing etc., provided attention is paid to the security of certain data.

#### 11.6 Remote Access

Systems held on immediate access storage enable the files to be manipulated for the purposes of the retrieval of information via terminals. The terminals are linked to the server thus a connection to a main frame computer is possible over any distance. Application in local Municipalities and in user departments quite remote from the computer installation. Terminals may be used both for interrogation, updating purposes and sharing information.

#### 11.7 File Management

The types of enquiry and updating that will be provided will, of course, depend on the user application as will the records held. In brief however, the records relating to the property and to the personal details of the debtor must be capable of being instantly interrogated and amended as required and this applies also to the financial transaction details which may be held on a separate sub-system, in order to give a truly representative picture to the user at a given time.

It is essential that file management be so arranged that both property and personal account details are linked by a referencing system so that the property record also bears the personal account number and vice versa, and this will allow flexibility of access methods in retrieval or updating situations.

Most systems using V.D.U.'s allow the user to select the type of operation to be performed - enquiry, update or amendment. One option will be the production of management information reports from a predetermined list.

Apart from the functions of normal interrogation and updating, the menu of options will include many of the requirements of management that were in-built as a result of the system study. Under the main option of management information, there may be listed by code many of the reports that are needed by management for the day to day running of a section or department.

### 11.8 Ad Hoc Reporting

Under this head, come the many and varied types of report that management requires from time to time and whilst generally, the information required will depend on the user application, the format and permutations of this type of report cannot always be predicted in advance. For this reason, such reporting cannot be easily in-built as part of the standard information reporting. As a means to the end of ad hoc reporting, the method chosen for file management and record indexing will determine the ease by which these non standard reports may be extracted from the system. Where, by inter-active means, management information is sought from data held by the main frame, the user has two main options:

- To request that a special program be written by the data processing department or
- For the necessary program to be written by the user.

If the second is made, the user will require an interrogation package or suite of programs to enable further programming for management information to be achieved. The packages can be purchased or acquired on a rental basis. It is emphasised that some knowledge of the contents and structure of the user file records is necessary together with a general aptitude towards computer programming. Software is available which allows input when writing programs to be made via the VDU and the package specification manual and menu driven screen formats lead the user through the stages necessary to complete the program.

With the coming of recent technology, greater opportunity is available to management not only in accumulating and storing data but also in accessing and manipulating data at a later date to management's ends using techniques tailored to specific needs.

### 11.9 Records

The design of records must be sufficient to provide for the needs of those users who have first hand knowledge of the system requirements.

There are obvious similarities between public service authorities in that they cater for the needs of the public living in their area and all make a charge for the service provided. Hence the information available to management must cover the three elements contained in the records:-

- (a) The person or organisation to whom a service is given (consumer, patients, property taxpayer etc).
- (b) The address - for correspondence purposes (dispatch of invoices etc.) for the supply of the service.
- (c) for reference to specific factors particular to the property (e.g. use of property, market value etc.) which may by statute be used to calculate the charge for the service.

#### 11.10 Common Personal File

Where a Municipality supplies a number of different services to an individual or supplies a single service at regular intervals then records should not be duplicated but a personal file created to hold all relative information on the person in receipt of the service.

A sub-system should be provided, linked to the personal file holding financial information - the amount due for the service.

Some examples of information which may be held on a personal file and associated sub-systems

- Name and address.
- Personal account number.
- Arrears/pre-payments brought forward.
- Details of current charges shown separately with classification.
- Date on which charge was incurred and interval of charge.
- Date of bill.
- Chosen method of payment.
- Payment history - including reference by indicators to reminder notices, enforcement actions
- Any adjustments to charge, including reliefs, write-offs, increases etc.
- Provision for estimated charge, where necessary.
- Details by indicator of current collection or recovery action - Final Notices, legal action etc.
- Court Costs.
- Duration of charge if relevant
- Payments to date including deposits.
- Current balance

- Indicators for preventing arrears recovery action (as in bankruptcy, deceased persons, company liquidations etc.)
- Indicators to record charges being collected on an agency basis and payable to a third party.

#### 11.11 Information held on Property File

Some examples of information to be held in a property file: -

- Address.
- Property reference.
- Description.
- Special information market value, assessment data, details of machinery or equipment installed (meters etc.)
- Known alterations to property currently being undertaken with last inspection date.
- Date property was built if available.

All the information on record must be capable of being retrieved in the form of totals, categories or specified ranges for statistical analysis. It is also preferable that there is a facility for storing statistical information relating to previous year(s) or billing periods to provide comparisons with present performance or to establish current trends.

#### 11.12 Standard Information available in Revenue Systems

Reports to provide day to day control should be available to staff in revenue departments and the type and content of each report will be decided at the outset between systems, staff and the user in accordance with the specific requirements of each. This form of reporting could, therefore, be described as being of a routine nature and would supply statistics and general information daily if required with cumulative reports at specified intervals (weekly, monthly or other intervals).

Some examples are:

(a) Calculation of debit at commencement of accounting period. Totals are provided for each type or classification of charge in accordance with its description and the base e.g. meter readings, market value, services given or sale of goods etc.

(b) All additions and reductions to opening debit made during accounting period, together with description and reason for alteration, this will include full details of those alterations made on an estimated basis.

(c) All charges which became due after the beginning of an accounting period as a result of new consumers or new tax / fee payers etc.

(d) Totals of all relief allowed,

(e) Details of all cases where income is not being received as in the case of non taxable entity, a disconnected supply, vacant beds etc.

(h) Amendments to personal account holder details input on to the computer system.

Where enforcement action is required hard copy reports should be generated on those accounts where notices should be sent or court proceedings are to be taken in accordance with the agreed time-scale.

Where the amount due is calculated by reference to information held on file and this is provided by external bodies, regular reports must be generated to ensure compliance with notices of amendment received.

### 11.13 Collection and Enforcement

Most organisations now recognise that these activities require frequent reporting to management. Any downturns in the economy and political pressures have an adverse effect on the level of arrears. Managers must appraise themselves of current conditions, decide on techniques to be employed and organise their staff as necessary to ensure efficient collection.

### 11.14 Analysis of debtor information

It is essential that the system be structured so that amounts due may be analysed in a variety of ways such as:

- type of debtor e.g. relevant to the use of the premises involved, or service supplied.
- Area or location.
- Method of payment.
- Previous payment history.

The objective must be to quickly identify defaulters or those not paying in accordance with the method of payment prescribed on the original invoice or bill. In this regard it is essential that an up to date record of payments is available such as is afforded by on-line cash receipting systems.

### 11.15 Debtor Reports

Upon the expiry of the interval given for payment, a report will be made in most cases where a reminder notice has been produced and the debtors' payments status will be marked accordingly by a flag within the system. Totals will be provided of numbers and amounts of debts by type and category.

Thereafter, at prescribed intervals reports could be produced in all cases previously flagged as having been sent a reminder where payments have now

been made. This would enable not only amounts paid to be monitored but the effectiveness of the recovery action to be assessed.

Similarly, further enforcement action taken after the issue of a reminder should be reported by use of the payment history indicator whether this may include legal proceedings or action by the Municipality to terminate the service.

#### 11.16 Exception Reports

All accounts where follow up or enforcement action has not been taken due to special circumstances (or where suppression indicators have been used) will be regularly reported. Examples of these will include places where the charge is in dispute, where a previous relief has not been given and bankruptcy cases. It is essential that these accounts are reviewed at regular intervals to ensure that their non-recoverable status is still appropriate.

#### 11.17 Priority of Debts

As part of the procedure for maximising cash flow the recovery recording may be selective for different classifications of debt. For example, it is logical to concentrate on the larger debts at the outset and therefore reports could be produced for debts falling within a given range or according to the age or priority of the debt.

#### 11.18 Monitoring Collection Performance

A running analysis of the current debit as adjusted by reliefs or entitlements should be compared with cash received to provide collection statistics on a weekly/monthly basis. By this method the timing of follow up and recovery procedures may be reviewed.

The final monitoring process should be capable of holding collection and other transaction figures for at least the previous year to provide comparisons. Facilities to update historical figures could also be incorporated to provide a more realistic comparison with the current position.

#### 11.19 Performance Measurement

The performance measurement file may also retain budget estimates under all transaction headings for comparison with actuals on a weekly/monthly basis. Income profiles could be built up which would be useful in future budgeting and monitoring.

As a means of monitoring the work load of staff a summary analysis of all computer input and output could be provided as required to enable procedures and staff to be organised to meet the current work volume.

Statistics produced at billing time may be held on file in order to establish a trend and provide an indication to management of likely, future consumption and demand. The analysis of demand from billing figures will further prevent



the accrual of larger than necessary stocks of stationery in terms of demand notices, final notices, etc.

#### 11.20 Ad Hoc Reporting

Much statistical information is required, in various forms within any organisation and also by external bodies such as Government departments, engaged in collating information on a national basis. The type of ad hoc reporting which will be utilised must depend on the needs of the particular organisation concerned and will need to be capable of meeting changing needs. The emphasis then is placed on flexibility and this must be the keynote of all modern file structuring and system design.

#### 11.21 System Controls

##### System and Program Controls

##### 11.21.1 Batch Processing

Controls over data should be established at the earliest possible time. When batches of input documents are passed from one point to another, prior to processing, they should be accompanied by a control total on the number of documents. Before data enters the computer, this total should be supplemented by batch and hash totals as appropriate. Financial documents must be batch totalled on important value fields. Batches should be sequenced to avoid loss, delays or duplication of any batch.

##### 11.21.2 Online

Control totals should be accumulated, printed and reconciled for each terminal by type of input transaction.

The following controls are intended to answer the questions:

- (a) Is all the data there and not duplicated?
- (b) Where sequence is important, is the data in the correct sequence?
- (c) Has all the data been processed and processed once only?
- (d) Is the processing accurate?
- (e) Have the files been correctly updated?

##### 11.21.3 Control Records

Control should be established over all files held on magnetic media which have a life longer than the duration of programs creating or accessing them. When files are physically or logically divided, controls should be established on each of the physical or logical divisions.

Control should be established by means of a control record which is situated at the end of the file or file division. If the file is updated in sequential mode, the control record(s) should be checked and updated each time the file is

updated. If the file is only updated in index sequential mode, there should be a special sequential file scanning run to check the control record, updating of this record being done on the normal index sequential update. The file scanning program should be run at intervals consistent with the ability to recover from any errors found.

The control record should contain a record count together with a control over all important value fields. If values can be both plus and minus (debit and credit), then separate control totals should be kept.

When a file is transferred between systems, controls on the file should be checked independently by the receiving system to prove the file's integrity. Transaction data passed between systems for subsequent processing should only be done via the normal input program in a form that can be validated as if the document was manually created.

Separate totals should be computed and checked when outputting data from one program and its input to the next program in the suite. It should be possible to relate update totals back to prime input totals and to follow control totals through the system from the initial creation.

When data is merged, copied or re-arranged, appropriate controls should be provided over the old and new files to demonstrate that loss and corruption have not occurred.

Whenever system reconciliation is done, a hard-copy reconciliation report should be produced. This should be in a standard format with the program and job clearly identified. It is just as important to have documentary evidence that reconciliation has been successfully carried out as it is to report on a lack of reconciliation. When reconciliation reports are printed remotely, a consolidated report should be printed and stored at the Computer Centre.

Each control print should state the before and after state of all files updated in the program.

Provision must be made for the correction of control totals found to be in error which cannot practically be corrected by re-running. All such corrections must be brought to the attention of the local computer audit staff.

Each update run should produce a report which lists the pre-and postdated record contents of each record that has had standing data updated. In the case of large/database records, the printing would be confined to the actual fields that have changed.

In some systems, completeness of input can be checked by matching the input against master or pipeline data (e.g. customer number against a master file; goods received data against outstanding orders pipeline file) .

In online systems, non-enquiry messages should be sequentially numbered so that the receiving application can verify that no messages have been lost in transit. Positive acknowledgement of data received should be provided.

In online systems, non-enquiry messages should be logged by the receiving system for backup, restart and confirmation as to what was sent, where it was

sent from and when. Individual access should be restricted to selected transaction types.

Where a common store area is used as an interface between programs, the facility should be provided whereby it is possible to establish the contents of the area at the termination of a run. This is to detect the possibility of data read from master files into this area being modified by subsequent programs. Enquiries could possibly be excluded, depending upon privacy requirements. This problem could perhaps be eliminated at the time of system testing.

An access control log within the computer should be provided for all files that can be accessed by terminal (including Remote Job Entry). This log should identify programs that have opened and closed each file, together with the date/time of access, the identification of the terminal (where appropriate/ user), and the mode of entry (Remote Job Entry, online, batch, etc).

Provision should be made in all online systems for hierarchical password and levels of authorisation.

If a batch processing system uses remote job entry, the user should be required to provide a security identification code and a program / file use authorisation code.

#### 11.21 Input Controls

The following controls are intended to answer the questions:

- Are the fields in the data correct;
- Are all the errors corrected and re-submitted;
- Are the correct records accessed, inserted, amended or deleted, correctly.
- Are all 'warnings' acted upon

It is a fundamental principle that all fields in a transaction should be validated regardless of errors being found early in the transaction.

Check digits must be used on important fields, e.g. key fields such as account number.

#### 11.23 Validation of Data

All data should be fully validated. Techniques for this include:

- Check digit checking;
- Format checks;
- Range checks;
- Limit checks;
- Checks for mandatory and prohibited fields;
- Association checks with related input and with master file data (in the update program on batch systems).

In the case of online systems, correct data entry can be greatly facilitated by good screen formatting and instructions. Online updates should result in a positive response to the terminal user i.e. either an error message or a message which indicates the essential content of the inserted, changed or deleted data record. In the case of insertions and deletions, the content should consist of the record key plus some identifying record information. Changes should additionally incorporate the fields that have changed.

It must not be possible to by-pass the validation checks.

#### 11.24 Deletion of Records

Automatic deletion of records by batch programs should be controlled by printing the deleted records and getting them checked by the User. Non-automatic deletion of records in batch systems should result in the keys being printed on the update report. In the case of online systems, some identifying data should be displayed on the screen for user confirmation.

#### 11.25 Incorrect Data

Whenever data is found to be in error in either edit or update programs, or during online data entry, the rejected transactions must be reported with full details, in plain language, of the reasons for rejection. It must be clear which items have accepted and which rejected. The plain language could be supplemented but not replaced by a message code. Reporting would be either on a line printer or on a terminal, depending on whether the system is being run off or online. The error report could be combined with an input listing, to be signed by the person who checks it. In the case of financial batch systems, this would provide a second stage authorisation particularly important for key to disc input.

#### 11.26 Exceptional Data

Entries for which complete validation rules cannot be built into the program should be listed separately for manual review. An example of this type of exception report is a payment where the amount is greater than a defined limit. When data is built up in a series of daily validation runs which culminate in a weekly update run, the batch control and error reports should be cumulative throughout the week.

#### 11.27 Resubmission of Corrected Data

When a file is to be updated by several different users, responsibility for each field should be clearly defined, together with the logical sequence of updating.

In the case of batch processing, submissions of corrected data should be controlled automatically by printing a report from each validation and update program which contains for each batch that contains errors, separate control totals for documents in the batch that have been accepted and rejected. A

batch number would be reported on each run until all erroneous data in the batch had been re-submitted correctly.

Rejected data should be held on a suspense file awaiting correction.

In the case of online systems, consideration could be given to the use of a supervisory terminal operating in a supervisory mode in order to make control changes (e.g. to user authorities, terminal identities, etc) and changes to highly confidential data.

In the case of database systems, consideration should be given to the maintenance of logs of all database accesses and all security violations.

## 11.28 Output Controls

The following controls are intended to answer the questions:

- Is the output all there;
- Is it meaningful to the user;
- Has the run been done, even though no output records were produced;
- Is there an adequate computer control over the use of financial stationery;
- Has data been correctly passed from one run to the next.

The majority of output D.P. controls are of a clerical nature. Five points, however, are of concern to the system analyst.

- All reports, including D.P. Control reports, must have program number and run-date at the start of each report. They must also have meaningful names and report the page numbers on every page. The effective date of the data in the report must appear in the report heading. All columns of data should have meaningful titles; however, if space limitations require the use of cryptic abbreviations, users must be supplied with definitions of these abbreviations (these could be printed on the first page of the report). The end of the report should be indicated with a message such as 'END OF REPORT'.
- Totals used for controls should be distinguished from those used for management information.
- A 'NIL' report should be produced when no data is present which is relevant to the report.
- If tight control over output forms is desired, pre-numbered forms should be used, combined with a computer count of the number of forms printed. This count is then reconciled to the difference between the first and last pre-printed number used.
- If totals are carried forward from one run to the next (e.g. year to year figures), the system should print these totals in each run.

The above control techniques are intended to help the systems analyst design a well controlled system. No mention has been made of operational

requirements such as restart and recovery procedures. Experience indicates that such techniques are more widely practiced than the system design techniques mentioned above.

## **Section Twelve**

### **12.0 *Taxpayer Relations***

#### **12.1 Public Information and Assistance**

Revenue collection administration should be viewed as a public service function. The chief service is equitable assessment. In addition, many property owners need individual service, whether help with an exemption application, an explanation of an assessment, or various other needs for real estate data.

Revenue administrators can expect to receive many requests for information and assistance. Systems and procedures need to be established to satisfy these requests effectively and efficiently.

#### **12.2 Methods of Communication**

Most members of the public have a poor understanding of taxation and tax administration. Having a publication that explains these things is an excellent tool to use in a public education program. Administrators should bear in mind that they have several publics — homeowners, business people, and government officials. Other tools and techniques are needed, including audio-visual materials, press releases and briefings, and reports. Every member of the revenue administration staff should receive training in how to deal with the public and how to respond to questions.

#### **12.3 Accuracy and Equity of Assessments**

The accuracy and equity of assessments depend on well-informed taxpayers, who are given opportunities to “audit” the work of revenue administrators. Mailing each property owner or tax / fee payer a notice of every change in the assessment before the appeal period is an important component of a communications program.

#### **12.4 Tax Compliance**

Tax compliance research suggests a number of important lessons about persuading taxpayers to pay. They can be persuaded by both positive and negative incentives. On the positive side, the taxpayer must be persuaded that revenue is collected fairly and efficiently and will be spent well.

Also, a system of premiums or discounts can encourage early and timely tax payments. In countries with insecure legal title, property tax payment often indicates indicative land tenure, giving property beneficiaries a strong incentive to pay their taxes promptly. On the negative side, taxpayers should

understand that nonpayment will be met with clear and assured sanctions and penalties.

### 12.5 Developing Municipal Credibility.

Municipal credibility is important in promoting compliance. No citizen enjoys paying taxes / fee to the government, but resistance is less if tax / fee payers feel sure the money is being collected and used fairly and efficiently.

Improving credibility includes;

- Rationalizing the systems and procedures for both the revenue and the expenditure side of government finance.
- Greater transparency is important.
- Citizen participation in decision-making provides a closer link between taxpayers and the policies about taxation and expenditures.
- Effective public relations are critical.
- Explanatory documents should be in simple everyday language.
- Tax / fee payer hotlines,
- A simple appeals procedure for dispute adjudication, and
- Close links with influential community leaders are all helpful.
- Compliance is higher if taxpayers identify with the benefits produced from the taxes / fees. The closer the expenditure is to the particular type of charge, the higher the compliance.

### 12.6 Public Relations and Communication

Good public relations is a form of tax / fee payer education and can be used to inform tax / fee payers as to the importance of the tax, charges, policies and procedures for compliance, and how the collected money will be used.

Public relations can be carried out through activities such as community group meetings, television, radio, newspaper, movie theatres, posters, the Internet and leaflets. The following sections discuss the nature of communicating with taxpayers

### 12.7 Form Design

Firstly, decide why the form is needed, and who it is aimed at. Work out who your customers are, taking into account their age, capability, literacy level etc. You may want to consider larger print and simple language. At the same time, establish what information you are trying to collect and/or give out. Make the purpose of the form clear to the customer e.g. by use of a bold, simple heading.

Use plain language - do not use technical jargon if the form is to be used by non-technical people. You will improve the understanding of your form if you are direct and use normal language. This in itself helps cut down the number



of queries from customers. Take into account the needs for special groups. You may need to have forms in various languages, or to make special provision for the needs of blind people.

Explanatory notes may be needed, depending on the complexity of the form. If you decide they are necessary, consider whether they should be included as part of the main body of the form, or be a separate part. If information is subject to change, a separate explanatory note may be a cheaper option when it is time to update the contents. If you decide on separate guidance notes, keep to the same style (and size?) as the main form. At this stage, it is useful to consider providing an audio version for some customers

Bear in mind the requirements of the Data Security and Confidentiality. You should only ask for the information you need to do the job in hand. Make it clear on the form if customers have a choice about providing information. Specify if details are to be kept confidential - likewise specify if details from the form may or will be passed on to another office or organisation.

Aim for a “house” style, which will be easily recognised by taxpayers. This can be developed for use on all commonly-used stationery. Consider liaison with other Municipalities. You may be able to use the same style of form, perhaps country-wide, but with individual variations. This helps customers to recognize application forms when they move from area to area, hopefully cutting down on the number of enquiries they need to make.

Consider the cost of what you are trying to produce. Take advantage where possible of a “consortium” approach to obtain lower unit prices, as the number ordered can then be increased to obtain competitive rates. Choose the colour(s) carefully - black and white is usually cheaper, but other colours can be effective. A compromise can be reached by perhaps using just one bright colour on white. Select the colours to suit staff and customers alike - remember that staff may spend all of their time working with one type of form.

The size of forms and literature is important - they must be easy to handle. Take into account the size of standard envelopes, or arrange for special size envelopes to be provided. If you need to use pre-printed labels or inserts, check that these fit into the window of the envelope. Finally, check that the forms are compatible with your filing system.

## 12.8 Use of plain language

Aim for all written communications to be easy to understand. Keep your language simple and direct. This is helped by using active, not passive, verbs - say “you need to fill this form in” instead of “this form must be filled in”. This helps to make your letter or form more personal, and less stilted. Keep sentences short, with no more than 15 to 20 words. If you have to explain something complicated, split it up into parts. Avoid technical words and phrases where possible, as these can confuse. Remember that communication is a two-way operation - it is not simply a matter of you saying

what you want to say. The recipient needs to understand what you really mean.

## 12.9 Office procedures

Specify who can write letters, and who can sign them. You may want to insist on a separate signatory as a check on the content of the letter, but consider delegating this to the lowest level i.e. to make the contact more personal.

Make sure a reference is quoted so that the tax payer can make contact/reply if he / she wants to. Decide whether this will be the name of the writer, or some other identifier e.g. legal entity or case reference. Consider whether to quote extension numbers and/or names for queries and replies - this will depend on the organisation of your office.

## 12.10 Letters - style, signatures etc

Firstly, decide whether you want a friendly or official style. This lets you develop a “house style” which can cover standard or individual letters and decide in whose name your letters are to be sent.

Use plain language - keep your letters straight forward and easy to understand. Make it clear where to direct enquiries and/or replies, and advise customer of easiest method of contact.

Be sure to reply to the query that was raised. Don't only tell the tax / fee payer what you want him to know - tell him what he wants to know. Keep the reply relevant to his problem/situation.

Letters should always have a signature. This can be individual, pre-printed or stamped. Decide which type you want, and make sure it is always there. The type may vary e.g. computer letters are often pre-printed, whereas individual letters are more usually signed by the writer.

Provide staff with training to enable them to write good letters. This ability does not come naturally. Training should include the structure of letter writing, including how to start and how to finish a letter.

## 12.11 Leaflets

Choose the style and decide on the content of your leaflet. Use your “house-style” if you have one - if not, this is an excellent means of developing one. You need to be very clear about the purpose of the leaflet before you start. Consider whether it is to be part of a series of leaflets, and compare with the others before your start.

Resist the temptation to be too ambitious. Keep things simple, so that you make your point but don't overwhelm your customers with surplus information. If the leaflet is targeted at a general audience, avoid complicated detail.

Update the information regularly, to keep it current and relevant. Set yourself a timetable for updating the information. Take into account any feedback you get from customers regarding style and content.

Make your leaflets easily available. Circulate them over a variety of locations, and target the circulation. Remember to update your circulation list regularly, as needs may change.

Offer a contact point for further help and information, and then make sure this is staffed by people who have been trained well and can provide information.

### 12.13 Bulk Mail

Target bulk or large mailings (mail shots) carefully so that information is only sent to customers who may be interested. If you randomly target, for example for customer satisfaction surveys, ensure that different people are targeted each time. Try to avoid clashes with mail shots from other parts of your organisation.

Use your “house-style” if you have one. This may be for your own particular service, or could be for the whole organisation. This helps to make your literature recognizable by your customer, who will hopefully deal with it instead of putting it in the bin with the other promotional post.

Keep it simple and relevant. This is especially important if you want the customer to do something voluntarily e.g. a customer survey. You need to attract his attention, and then make it as easy as possible for him to do.

Make your mail shots attractive, as you are competing with a lot of junk mail. You need to stimulate interest - consider perhaps offering a prize draw if you really want a high return of forms.

As usual, ensure you provide a contact point for advice, with provision for enquiries, questions and comments.

### 12.14 Posters

This gives another opportunity to use and develop your “house-style”, which helps your customers to recognize your literature.

Use plain language, and few words. Keep it easy to understand, and quick to read.

Keep the message simple. The main part of your message should be understood at a glance, without the need to take in lots of detail and small print. Use pictures and bold print if this helps.

Use colour if possible, as it makes a much greater impact. Try to follow through the style of earlier leaflets and correspondence, using the established “house-style”.

Posters need to be well distributed, and updated regularly. Be aware of the shelf-life of your poster, and make sure you have a procedure to either remove or update the posters at regular intervals. Target your distribution in line with your customers' needs e.g. information for pensioners at local Post Officers.

#### 12.15 Seeking the views of the customer

You can make assumptions as to what the tax / fee payer wants, but the only person who really knows what is needed is the tax / fee payer!

Be sure that the questions asked are not made in such a way as to make a point. Don't pressurise the customer. Whatever happens, if the customer doesn't want to fill in an exit survey, then accept this. You may try gentle persuasion only. Consider the aggressive tax / fee payer and the staff who are doing the exit survey. Should a tax / fee payer become aggressive, thank them, and walk away from the situation. Invite the tax / fee payer to take the questionnaire away but if you expect a reply remember to give them a prepaid envelope.

#### 12.16 Questionnaires

Questionnaires are a very good way of finding out what the tax / fee payer needs. Ensure that your questionnaire covers a good cross-sample of your tax payers. For example, if you are going to undertake a postal questionnaire, do not target one particular group, e.g. elderly people, as you will get a view that is not necessarily that of the whole community. Consider undertaking postal, exit or telephone questionnaires. Each of these has their own particular advantage.

- A postal questionnaire gives the customer time to think of the answers but should be made as early as possible after they have received a particular service.
- An exit questionnaire gives an immediate reaction but cannot give the customer time to think in detail of all the answers. Many people consider exit questionnaires as a nuisance and therefore will not answer them.
- The third type of questionnaire utilizes the telephone. Talking to a tax / fee payer over the telephone can be very time-consuming. All sorts of questions will be raised, not necessarily those involving your Department, so the member of staff making the telephone questionnaire must be fully conversant with the whole of your organization's business.

#### 12.17 Compilation of Questionnaires

When compiling questionnaires, make sure that the terminology used is easy to understand. Use plain language. Design your questionnaire and then test

it out on a sample of customers before going “live”. You will discover any questions that are not clear and may need to revise your questionnaire. Define the problem that you want information on. It may be that you are just looking for an overall reaction to the service that the customer is receiving. It may be that you have a known problem. Design your questionnaire to cover all aspects of the problem that you want information on.

- *Unbiased*

In designing your questionnaire, make sure that the questions are completely unbiased and avoid questions that can only provide answers that obviously show your organisation in a good light. Don't single out a Department or group just to prove a point. Your questionnaire is designed to give you feed-back on the service that you provide. If you only ask limited questions, you are not going to get a true picture.

- *Unambiguous*

Make sure that all the questions you ask are precisely clear and explain their intention - do not confuse the customer.

- *Incorporate check questions*

Some people will try to fool you by answering questions incorrectly. Be aware of this, and by incorporating check questions later on in the questionnaire you can see whether they have been answered truthfully. Remember to allow people sufficient time to think of their answers.

- *Exit polls/questionnaires*

Consider having a blank sheet on your enquiry counters - this can be fairly simple - asking the tax / fee payer what they thought of the service they had just received. Have a system whereby these can be left on the premises or include a pre-paid envelope. It may be that the tax / fee payer has filled in one of these forms and has just criticized a member of staff and they don't want to leave it on the premises, so pre-paid envelopes are an advantage. Another advantage is that by taking the form away, the customer will have more time to think of their answer. If these forms are left on the premises, ensure that members of staff who may have just given a poor service don't have access to these forms.

### *Evaluation*

Once you have gathered all the information from your customer surveys, then you have to present it. Remember that presentation is important, and remember who you are making the presentation to. Make sure your presentation is accurate and not lengthy, and there are no technological terms that need explanation.

Remember a very long report probably will not be read, so keep your report as brief and possible and make sure you cover all the facts. Before presenting your report get somebody else to read it within the office - did you get your message across?

- *Use of personal computers and graphical presentation*

Part of your report should include some form of graphs, pie-charts etc. Using them makes it easier to understand trends, particularly when comparing - e.g. monthly numbers of customers compared with previous years. Avoid the use of technical terminology and produce clear and simple graphs or pie-charts, bar charts, whichever you feel is easiest to understand. Do not over-complicate the report and pay attention to the choice of headings, make sure that the axis are clearly labelled and the source of the information is clearly defined.

- *Identify specific problems*

Be sure of what you are trying to achieve as you may begin by identifying one particular problem and discovering another. Present your conclusions and suggestions for solving these problems.

- *Who is invited?*

This depends upon the reason for the surgery. For example if you are holding a surgery on Housing Benefits it would be of no use inviting the local millionaires club! Consider setting up a panel which contains five members of your organisation and members of other groups. The advantage of such a panel is that all aspects and all questions can be answered.

## 12.18 Media communication

Public Sector organisations are often reticent to use the media as a means of communicating. This reticence should be overcome, particularly as they are required to be accountable to their customers - if they are proactive in their communications, they are much more likely to avoid the traditional reactive stories about the problems they have caused rather than the things they have put right.

- *Radio*

Very few areas are not served by a radio station and they are particularly useful for letting taxpayers know when bills are being issued, when payments are due and when enforcement action will be started.

It may be helpful to offer an invitation for the representative of the radio station to visit you, in order to familiarise themselves with your organisation.

There are a variety of ways in which your message can be heard. If you are brave enough, you may wish to take part in a phone-in. If so, make sure that

you know your subject well in advance, and check with the person running the slot whether the calls are going to be filtered or not before you respond. Phone-ins' are not for the inexperienced official particularly given the likelihood of some tax payers straying from the topic - you will still be expected to provide a comprehensive answer!

Recordings of stories can also be prepared for news bulletins, often as a result of a news release issued by your organisation. These recordings can be dealt with over a telephone line, or in a studio. Ensure that you are well briefed, and that the interviewer does not force you to start before you are ready.

You may also have the opportunity to contribute to a regular feature. This will usually give a longer time for preparations, but you may find that you have a longer slot to occupy.

- *Advertising on radio*

If you are contemplating using radio for advertising, it is a good idea to listen regularly, in order to gauge the target audience. Get to know the age of the listener, and whether the station carries, for example, serious documentary style' news and current affairs programmes, or whether it is simply a music station. You will need to have done your research well if you are going to maximise impact. Avoid costly advertising campaigns that are only going to reach a small target audience.

The radio station will have data showing the breakdown of its listeners, and should be able to identify peak times, likely clientele, etc., in order to give you an idea of how many people you will reach.

Consider specialist advice before going ahead. Not only are there many companies providing such advice (your local radio station will have contacts), your own press/public relations department should be able to help. If you are planning a campaign e.g. to encourage tax payers to pay, sharing with other adjacent Municipalities will not only help keep costs down, but may enable you to launch a more intensive campaign.

The timing and length of your campaign is all important. The following checklist should be observed as a minimum:

- ensure resources are available to deal with the response
- consider merits of short intensive campaigns/broadcasts over a longer period
- issue news releases to coincide with your campaign, to get a little free publicity too
- dry' subjects will need punchy, memorable advertisements
- consider following up national promotions locally
- avoid times of the year when other things take priority
- consider using more than one media outlet at a time e.g. joint TV. / radio / press campaigns.



Having decided on your campaign, you will need to be able to assess the results of it. Try to identify e.g. the level of income received as a result of the campaign. This will help to determine the usefulness of the campaign, and will be particularly helpful if there is an intention to stage a repeat at any time.

If your campaign is a success, don't forget to broadcast the story - a news release identifying how many people paid, for example, could prove to be a very effective way of gathering more support.

- *Use of television*

Again, specialist training is advisable before launching into television appearances. The appearance of a television crew can be very daunting, particularly in view of the apparent speed with which they operate - remember, though, that they do the same thing many times a day, every day!

Specialist training can be provided using simulated interview facilities, giving you the opportunity to see yourself, to criticize, and be criticized. In view of the specialist nature of this type of work, though, it is quite reasonable to recognize that some people simply do not wish to take part - don't view this as a sign of weakness - it isn't everybody's cup of tea.

Television appearances can come as a result of either a proactive campaign (for example following the issue of a news release), or as a result of a particular story picked up by a reporter. The former is easier to prepare for. Carefully detail what you want to say, and ensure that the crew has the news release available. You should be given the opportunity to run through your questions and answers at least once - don't be afraid to say hold on. Make sure you are comfortable with the situation before you start, in terms of seating, lighting, etc.

Your appearance is important too. Be calm and assured, and remember that you are projecting the image of your Municipality, and it may be reaching thousands of viewers

During the interview, keep up eye contact with either the interviewer or the camera, as instructed, and avoid too many physical gestures - they tend to be exaggerated on television, and can distract people from the content of the feature. You will also need to ensure that you are not being filmed in front of objects that could potentially command more attention than you - the photograph of the local Mayor should be removed, together with the plant that would otherwise appear to be sprouting out of the top of your head! When filming outside, you may be distracted by attention seekers, which will again spoil the effect of the feature, so unless the story is directly relevant to an outdoor event, it may be more appropriate to choose a room within your offices where interruptions can be minimized.

- *Political perspectives*



Local government business is conducted under the control and guidance of politicians. Whilst political involvement in administrative affairs should be kept to a minimum, coverage in the press or on television can attract widespread attention. It is therefore sensible to ensure that procedures exist for notifying Members of news releases, TV. and radio appearances, etc. - some of the more sensitive issues worthy of attention should in any event be presented by the leading politicians.

Whilst you cannot expect to take the politics out of media contact, by virtue of the very nature of local government, it is unwise to fuel controversy by demonstrating a particularly extreme viewpoint. Such an approach will inevitably alienate a significant portion of your tax payers, and will damage the image of your Municipality. Try to strike a balance, limiting the political content when appropriate, particularly at officer level.

- *Dealing with the press*

Making contact with your local newspaper(s) should not be difficult. Your organisation will probably have in place a system of communication between the local press and your press/public relations unit.

Whilst the specialist staff will be able to make the contacts for you, and often provide a mouthpiece for corporate news items, news of a more departmental nature can easily be dealt with by the department concerned.

Training is needed in the art of issuing news releases, although it is not complex. Journalists are however used to receiving copy in a particular style, and it is not appropriate to try and change it if you want your story to appear! It is also of benefit to know the circulation of your local newspapers, and to pay attention to their audited circulation statistics. A good "free paper" with a reliable local coverage can often be as good a place to focus your attention as the more established newspapers. Get to know deadlines for copy, and establish whether a regular slot is likely to be of benefit.

- *Advertising in the press*

The most obvious and direct way of advertising your services is through the columns of your local newspaper, so use it! Your advertisements should be clear and unambiguous, and the following checklist should be used before your copy is dispatched:

- do you know your deadlines?
- can you use in-house desk-top publishing facilities?
- can the copy be transferred to the paper directly - minimizing the likelihood of errors?
- are proofs available, if direct transfer is not possible?
- can you transmit by fax, thus ensuring deadlines are met?

The availability of proofs is particularly important if you are dealing with matters of a legal nature - you do not wish to mislead your customers, or worse still leave yourself open to legal challenge.

tax / fee payers will generally be creatures of habit, so there is merit in exploring the possibility of a regular slot on the same page of a particular newspaper. Very often, this slot can include statutory notices, and may not be the ideal vehicle for an important one-off announcement, but it can be very useful for your legal requirements.

- *The Municipal newspaper*

If your Municipality produces a newspaper then this is an ideal and attractive way of transmitting your messages, and might include the following items:

- the annual report
- the budget features on specific aspects of the organisation
- staff profiles
- campaigns, for example, on payment of taxes
- major changes in legislation

The production of legal information in a more attractive style will create a better impact, and will undoubtedly win over some tax payers - the production of an easy to read annual report is an ideal target.

You may wish to consider a theme for each issue, if you are considering a series. Include previews of future themes, to keep your customers' interest. If you are planning such a series, keep to any delivery promises you make (don't call it quarterly if it's only going to appear once a year!). Stories may be easy to come by for the first issue, but follow-ups may prove more difficult - aim for no more than three issues a year.

The newspaper can come in a variety of shapes and sizes, and be distributed by a variety of methods. You may be able to secure free delivery if you combine it with the issue of a local newspaper. This could be done by means of an insert, or even the cover. Not only will you be able to offload the typesetting work, but you may well receive free publicity if the newspaper is associated with advertising material.

Advertising will help pay for your initiative, but you must compare the reduced production costs with the potential difficulty of finding advertisers. Local organisations may prove more suitable, but be careful that you are not seen to be endorsing a particular product - you should be particularly even-handed in the way you contact potential advertisers, taking care not to leave out prominent ones. You may however wish to use the product to publicize your own organisation's facilities, for example leisure centres.

One of the drawbacks to allowing your local newspaper to produce the document is that you are likely to be constrained in terms of the style and quality of newsprint. Choosing to go it alone will result in a potentially more

attractive document, but will involve more work and cost - bear in mind the potential criticism that a glossy publication can attract, particularly if you are publicising financial constraint within it! You may wish to identify how much the document has cost to print and distribute, in terms of x' cents a copy.

- *Press Releases*

Writing a press release is an art, but once mastered, it should stay with you. Seek specialist training from your in-house experts initially, but once you have been trained, it is far more effective to produce your own copy. There are a few specific points to remember:

- list the points you wish to make before starting
- prepare a clear, concise introduction
- identify the key issues, and stress them
- consider limited quotes from a named individual
- avoid technical jargon
- provide a contact point and name

The timing of your release will be important. You may wish to consider inviting journalists for a briefing, providing them with the opportunity to ask questions. If you choose this route, ensure that you have staff available to answer the questions.

- *Press conferences*

As an alternative or a supplement to a news release, you may wish to invite the local media to a press conference. If so, use the contacts that are already established, and follow up telephone calls with details by fax.

Avoid the temptation to arrange a press conference for issues of relatively minor importance. They should not become a regular feature, on a specific day of the week - this will soon breed disinterest, in view of the fact that news cannot be arranged to arrive at exactly the same time each week! For maximum effect, you will need to focus on items of importance, new innovations, etc.

Make sure that the contact officers are available after the event, in case the journalist wishes to supplement the story with further information

## Section Thirteen

### 13.0 *Tax Payer / Customer Relations*

#### 13.1 Who are customers? –

You're a customer in everyday life, you use shops and services. You judge that service, although you may not directly be aware of it. You have a choice. If you don't like the service you receive in one shop, you can always use another. If you don't even complain about bad service, you can vote with your feet.

#### 13.2 Local Government Customers

In Local Government, many of its customers do not have that choice. Many of the services provided are exclusive to Local Government, so it is a duty to see that the customer gets the best possible service. Local Government is constantly changing – it is judged on performance and the public's perception is of great importance.

It is most important that the Municipalities should not lose sight of who the customer is. It is not just the public – tax payers are customers and the revenue collection department is a customer to other departments, and they look upon that department to provide a service. The service provided tax payers and to other departments reflects the image they all have of the collection department.

#### 13.3 What do tax payers / customers expect? –

The key to this question is “don't assume”. You may say, “Oh well the public require delivery of their service, expect us to bill them for real estate tax etc., empty the bins, provide a water service etc.

This may be true, but your personal performance reflects on the whole of your department / division. Always try to give your best, no matter how hard that may be.

- You may think you know what the customer expects, but find out. Ask; send out questionnaires, you may be pleasantly surprised at the results.
- Ask your customers what they want. Judge the standard of service you give by your own standards. Would you be satisfied with the service you provide if roles were reversed and you became the customer, not the provider? Are your own personal standards high enough? Do you accept poor service as inevitable?
- Throughout your working life and your private life you will come across customer care. Everything you do in life has an effect on other people. You can't help thinking customer care, once you get into it. It is very

interesting watching other people, watching their reactions, seeing how they deal with you. Once you are thinking “customer care”, when you use services in shops or over the telephone, you begin to notice how you are treated, and begin to pick up ideas.

- Think how you would like to be treated in the same situation. How would it affect you if your partner or your children were treated with such good service indicative of a good company? What would be your reaction to bad service? How would you deal with it? Would you complain? Would you write a letter of praise if you had received a good service? What are your expectations? How many people write letters of complaint to your organisation?

#### 13.4 Staff Role

You will be able to think of staff within your Municipality who are absolutely superb academically, but some of these people are unable to deal with customers. Then again, you may have the opposite. You may have staff that are superb when dealing with customers, but perhaps not academically gifted. Don't forget that staff are the most valuable resource that you have. Use the staff to their best ability:-

- Recognize their strengths and weaknesses.
- Give praise where praise is due.
- Make sure that an adequate amount of money is put in your budget for staff training.

#### 13.5 Front Line Staff

Front line staff are probably the key to a good organisation. Front-line staff are usually the only contact the public have face-to-face with members of the organisation. To a large number of the public, these staff are the Municipality. It is their fault when something has gone wrong. Make sure

- you have a good balance of front line staff.
- they are knowledgeable.
- that what they are telling the customer is accurate and truthful.

Often, front-line staff are under-estimated. Their use to the organisation should be recognised.

#### 13.6 The Customer

Psychology plays a big part in dealing with customers. Make that customer feel that they are the most important person you have seen that day. Make a little extra effort in helping them. It goes a long way to improving their perception of your organisation. When there is a problem, own that problem, and by owning it don't blame others. A good example would be to say, “Oh yes, I see what's happened here, I'll make sure that's dealt with immediately”.

Don't blame other Sections. Provide a common, loyal front. You all work for the same organisation, but maybe in different Sections. (Don't forget that job security is of all importance). When dealing with the public, especially at counters, after you have dealt with a person, avoid saying "NEXT". This creates a bad impression to the customer. It is impersonal.

### 13.7 Managing Customer Expectations

When dealing with customers, inevitably you are going to make a promise. It may be that you are telling them that the cheque that they are expecting will be produced within the next three days. Tell them five days instead of three. Then when the cheque is produced in three days, it enhances the customer's perception of you. But make sure that when you make a promise, you know that you can keep it. If there is any element of doubt, explain that to the customer. It may be that the cheque will be produced within three days, but there could be any number of unforeseen circumstances that could prevent this.

If you know an item will not be ready until a certain time, ask the customer to call at a later time. If an item is not ready at an agreed time, make every effort to contact the customer, be it by phone, post or personal visit.

It is essential that the customer is kept informed at all times. Advise the customer that there may be delays beyond your control. Make sure that it is made clear to the customer that whilst you will do everything within your own powers to achieve delivery, there may be matters outside your control which will prevent this. An example may be a computer failure. Another example may be that the key member of staff suddenly goes sick and then there is extra work put on to the Department.

Above all, be honest with the customer. Don't make flimsy excuses. At the end of the day, if there are errors made, make sure you apologize. It doesn't cost you anything to say sorry, even if it's not your fault. But it does create a good image with the customer.

Coupled with under-promising, over-delivering is part of the perception. If you have under-promised and then the item, e.g. a cheque, is ready at an earlier time, then the customer is happy with that service. If there is a delay, don't blame others - owning the problem is a key factor. Usually, over-delivering costs you nothing, but if you under promise in the first place, the customer's perception is raised, whilst making the customer feel important, assure them that you will do everything in your power to see that items are delivered. Continue to keep the customer fully informed when things go wrong. If you can't deliver at the agreed time, make sure that the customer is informed. It may not be what they want to hear, but you have made the contact. It is far better for you to make contact before the customer comes into the office and then are told that their item is not ready.

### 13.8 Listening to the Customers / Staff

Listen to your customer's requirements. Take note, do not take everything personally. Be aware that in some situations you cannot see the wood for the trees, and that there may be a simple solution. Listen to customers, listen to other members of staff, listen to other Section's suggestions. When you see a good idea, or when you are told of a good idea, try your utmost to ensure that it is put into action. Reward the member of staff that has made that suggestion. Question everything you do, and the way that you do it. Is there a better way of doing things? If necessary, make changes - but make changes where they are necessary, not just for the sake of change. Change is the only thing in life that is constant, but a lot of people don't like change. They are set in their ways. You have got to sell it to them. Have group meetings to discuss and explain why you are going to make these changes. Listen to the views of all staff and suggestions from the lowest grade to the highest. Don't impose your will without listening to others' suggestions.



## Section Fourteen

### 14.0 Human Resources

#### 14.1 Independence of Tax Collection Officials

Tax collection officials should be free from any political interference in carrying out their responsibilities. They should be able to act in accordance with the law as set out in the legislation covering billing and collection. Local politicians should not bring undue influence on tax officials to act in accordance other than within the law, for example, when a tax payer who is known to them they should not interfere with the legal enforcement process to persuade the tax official to defer enforcement action.

#### 14.2 Staffing levels and Competency

The size and competence of a staff relative to responsibilities and the work load are important determinants of a tax administration's ability to perform its functions effectively and efficiently.

Effective use of technology also affects staffing requirements. In the long run, a policy of making maximum use of technology will produce better results than a policy of full employment. Full employment policies lead to low productivity, demeaning work, poor morale, and poor performance. Opportunities for petty corruption increase. The result is a general discrediting of government.

Staffing benchmarks can be developed from surveys. Although individual ratios vary considerably, the average ratio of collection staff size to number of legal entities has been remarkably consistent. Small tax authorities (those with fewer than 10,000 properties or parcels) have about one full-time equivalent position for every 1,000 to 1,500 properties. Between 10,000 and 20,000 properties or parcels, the ratio averages about 1:2,500. Above 20,000 properties, the average ranges between 1:3,000 and 1:3,500. One factor that affects the ratio is the degree of staff training (better trained staff are more productive) and the extent of computer use.

A more detailed analysis of staffing needs can be made using data on work loads, work output rates, and staff time allocations. The basic formula for estimating staffing needs is:

$$S = (PxR)/T,$$

where S is the number of staff positions needed, P is the number of properties, R is the work output rate, and T is the time available.

Output rate data have two general uses. They can be used to estimate staffing needs. They also can be used to evaluate staff efficiency. To estimate staffing needs information on the amount of work to be done and the time available to accomplish it also is needed. For most planning and budgeting purposes, available time is measured in terms of the number of work days (or hours) in a year (say, 220 days to allow for weekends, about ten days for holidays and about thirty days for vacations and sick leave).



### 14.3 Qualifications

Revenues administrators and supervisory personnel in their offices have responsibilities beyond appraisal. They are responsible for leading and for personnel management. They may be involved in planning, budgeting, and project management. They must be able to communicate effectively with officials in all branches of government, with journalists, and with property owners and business leaders.

It is therefore essential that revenues administrators are professionally qualified preferably with a professional institute directly involved in revenues administration. The institute should have properly accredited examination processes with external verification through government training organisations.

### 14.4 Caring for employees

The concept of customer care cannot be considered complete unless it has taken full consideration of the needs of the organization's workforce. A happy workforce will convey the right image, and it needs careful cultivation. This section seeks to identify the key areas where caring for staff should receive attention.

### 14.5 Recruitment

- The first step in the recruitment process is identifying whether the post should indeed be filled. Careful examination of the requirements of the organisation must take place, ensuring that the post should be filled in its present form - the changing face of local government gives rise to the need for constant review, and it may well be that the needs of the customer are best served by restructuring, or utilizing the financial provision in another area where resources are scarce.
- A human resource plan' can be developed for your organisation. This will aim to achieve the following:
  - assess future recruitment needs
  - anticipate (and avoid) redundancies
  - formulate training programmes
  - develop promotion and career development paths
  - control staff costs but remain competitive
  - develop a flexible workforce to meet change
  - assess future technological and premises requirements as they affect staffing
- The plan will need the full support of all the senior management, and must be corporate if it is to be meaningful. Consultation with the workforce and their representatives is essential. Computerized records will help, enabling a picture of the workforce to be built up, identifying particular skills, qualifications, likely retirements, etc.

- The human resource plan can be utilized to forecast staffing requirements, and with the right data input, to gauge supply and demand over a period of time. Total effectiveness will not be achieved, however, without reference to employment statistics for the area.
- Having identified the need for recruitment, the style of advertisement must be planned. Whilst financial constraint may be an obstacle, a high profile post demands a high profile advertisement.
- The advertisement must stress the key factors:-
  - pay
  - main duties
  - contact point
  - interview date(s)
  - other benefits, relocation package details
  - closing date
- Job evaluation procedures can be useful in determining the criteria to accompany the advertisement, particularly if the responsibilities of the post have changed. You may wish to utilise this option to produce an effective job description, which should be detailed enough to clearly indicate the role.
- A job evaluation scheme will assist in consistency of approach, and its uses can be summarized as follows:
  - beneficial when existing grading structures need reviewing
  - allows the introduction of new or revised jobs
  - useful when comparing externally
- The scheme can be based on a points rating, which breaks down the component parts of a job in skills terms, and attaches points to each factor. It can also be based on a ranking system, where each job in the hierarchy is placed in a form of league table.
- A person specification should always be used. It should clearly list the attributes required, indicating whether they are considered as desirable or essential. Again, it is essential that a consistent approach to the exercise is adopted throughout the organisation.

#### 14.6 Selection procedures

- Care must be taken to involve the right people, at the relevant level, when preparing for an interview.

- It is essential that all interviews, whether involving external or internal candidates, are held in the presence of an individual with expertise in personnel-related matters. It is no use posing a series of detailed job-related questions if you can't answer one simple one in respect of the candidate's pension rights.
- It is equally important to elect a chair' for the panel. Usually the interviews will be chaired by a senior official with managerial responsibility for the post in question, but more hands-on' staff could be considered for appointments of a more junior level - remember that interviewing techniques take some time to develop, and it is always worth involving staff at an early stage in their careers. There are many opportunities to train staff in interviewing techniques, and you are strongly advised to ensure that at least one trained and experienced interviewer is included on the panel.
- Consistency and fairness must always be applied when selecting employees. It is essential that the selection panel meets to discuss the criteria utilized. This stage should involve working carefully through the person specification and job description, identifying the candidates' attributes objectively. You may wish to consider utilizing the services of your personnel section to sift out the candidates who do not meet the criteria before you make a final selection for interview.
- You may wish to utilize one or more of the many selection \_tests' available. These come in a variety of shapes and sizes, can be home-produced, or bought in. Such tests may include:
  - mathematics tests
  - language tests (comprehension)
  - intelligence tests
  - typing skills tests
  - self-evaluation questionnaires
  - psychometric' tests
- You may also wish to ask the short listed candidates to make a short presentation on a topic related to the post. If any of these options are chosen, be sure to warn the candidates in advance, by including details of your intentions with the letter inviting them for interview. In addition, make sure that the test is valid and reliable, free from bias, non-discriminatory, consistently scored, and wholly relevant to the post.
- Short listing candidates will be much simplified if you have used the person specification and job description effectively. You may even want to produce a long list' in some cases, seeking to identify the strongest candidates before picking a small number. Ideally, four to eight candidates for each post provides a manageable number to interview.

- The letter of invitation for interview should give clear details of the time and place (consider accompanying notes indicating the nearest railway station, bus station, with maps, etc.), together with an idea of the pattern of the interview, if presentations or tests are involved. It may also be useful to ensure that candidates travelling some way are slotted into the timetable in a manner that best suits their personal circumstances - for example, don't interview a candidate who's traveled several hundred miles last thing on a Friday afternoon!
- Seeking references is a necessity, and should be carried out at the same time as the letter inviting the candidate to interview. This will give you the opportunity to follow up any points worthy of note, or even omissions. Don't forget to supply the referee with a reply-paid envelope.
- Seeking a reference may involve simply asking the referee to supply a letter indicating their thoughts as to the person's capabilities, or it can involve sending a questionnaire. Whilst the latter course can provoke a better response, it does limit the quality, and you may receive a rather bland and non-committal reply. Examples of both types are enclosed as an appendix to this module.

#### 14.7 The interview

- The next stage in the selection process is all important. If you seriously wish to convey the image that potential staff are customers, this is where you must excel yourself. The following tips may prove useful:
  - try to prevent interviews over-running
  - allow for a short break at appropriate intervals
  - allow at least 30-45 minutes for each interview
  - make arrangements for the candidates to wait in a comfortable and private room, close to a w.c.
  - offer refreshments for candidates who arrive early, or
  - who have traveled a long distance
  - ensure that reception staff have a list of candidates, and
  - know when to expect them and where to send them
- You may wish to allow a few minutes before or after the formal interview for candidates to view their potential working environment. Always have someone on hand to provide the necessary tour, and ensure your receptionist has a list of candidates/times - make arrangements for them to be transferred from the reception area to the place of interview. Ensure that internal candidates are treated consistently with others - do not include them if you don't believe that they satisfy the requirements of the post, and do not take short cuts with them during the interview.
- The interview facilities should be completely free from any form of interruption, and the candidate should immediately be made to feel at home. Carefully plan the welcome, introducing the panel in turn, outlining

their title and responsibilities, and follow up by outlining the post in a little more detail than set out in the original advertisement.

- It is a good idea to allocate members of the panel specific questions to aid consistency. However, ensure that you do not simply allocate questions without thought - the questioner should at least have the ability to follow up any response from the candidate! The interviewer in the chair should also ensure that the candidate dominates the proceedings, rather than one or more of the panel - remember it is the person you are interviewing who has applied for the job!
- Allow time for job-related questions, and those of a more domestic nature. Allow time to check examination certificates. State how and when the decision will be made, and keep to your promise - good customer care should ensure that you don't over promise and under deliver in this area.
- When assessing the candidates, ensure that the criteria used are free from bias, and are consistent across the panel. Difficult decisions can often be made on "gut feelings", but ensure that they have been arrived at fairly. Most of all ensure that you do not appoint if none of the candidates reach the standards you have set out.

#### 14.8 The new employee

- Starting a new job is one of the most difficult and traumatic experiences a person can face. Make allowances for this, and allow plenty of time for the post holder to become acquainted with their new surroundings. Introduce the newcomer to new colleagues, not forgetting senior management, and allow sufficient time to let them settle domestic arrangements (bank accounts, removal arrangements, etc.). Don't expect total commitment in the early days - it often takes months for a new employee to settle, particularly if they are relocating from another part of the country.
- Induction training is an essential part of the first few weeks, and should ideally take place on a corporate basis, giving the employee a chance to meet other new starters, and to allow group induction. An induction course should include:
  - the objectives of the organisation (mission statement)
  - broad policy issues
  - a guide to the organisational structure
  - trades union membership issues
  - staff welfare
  - training and development opportunities
- The early days should involve close monitoring of the new employee, to ensure that a two-way process of communication develops. Arrange an

informal chat between the post holder and his immediate superior within the first fortnight.

- It is commonplace to provide a probationary period, usually of six months duration. Ensure that regular formal monitoring of the employee's progress is carried out - this will enable the employer not only to ensure that they are getting the best out of your employee, but also gives an opportunity for feedback. Take care to document your findings, iron out weaknesses at an early date, and provide solutions. Incorporate the probationary findings into your organization's appraisal scheme. Failure to act at an early stage, if the new employee is proving unsuitable, will only worsen the situation when the probationary period has expired.

#### 14.9 Retention of staff

- Good customer management implies reliable staff who are faithful to their employer. Good staff will soon earn a reputation, and will become attractive to your competitors. For this reason, you may need to look at the various options available which secure the services of those staff..
- Remuneration could be near the top of the list. Utilise the job evaluation criteria, comparing the post objectively with other similar ones within the organisation or even outside it. Public services can provide comparisons at most levels, in view of the statutory basis upon which they often revolve. Be warned, though - you may not be comparing like with like unless you obtain job descriptions for the comparable posts.

#### 14.10 Staff training

- Staff training often features higher up the list of desirable factors than pay. Care should therefore be taken to evaluate training needs in a structured way. Opportunities should be available to all staff, and training records should be set up for each member of staff, detailing courses attended, etc. Each member of staff should be provided with a minimum number of days training each year.

#### 14.11 The training course

- These notes will prove useful if you are embarking on an in-house training programme. Before embarking on a programme of training, consider the options available for accommodation. Training away from the workplace can hold a distinct advantage, avoiding unnecessary interruptions and giving staff a welcome break. Most Municipalities will have suitable venues available for conferences and seminars.
- The following checklist will help:
  - adequate parking
  - additional room(s) for refreshments
  - access for disabled persons

- availability of projectors / TV. and video equipment
  - comfortable seating
  - ability to organize furniture to suit workshop or
  - lecture style, as appropriate
- 
- The ability to seat people workshop style, with delegates able to see and communicate with each other easily, can be a distinct advantage. It will also enable you to arrange for them to display name badges - something which cannot be done if the seating is arranged in the form of a traditional lecture theatre.
- 
- Visual aids should be utilized, but make sure they are clear and uncomplicated:-
    - Use new technology for slide production. You don't need complex desktop publishing software - most word processing software will utilize different size characters and fonts to allow the production of a professional finish. Before launching into your presentation, though, remember to..
      - check that the equipment works
      - have a spare bulb to hand
      - check for sight lines, and check vision at the back of the room
      - check that the equipment doesn't interfere with the delegates' view
    - Handouts can also be very useful, but try to use them as a supplement rather than simply a repeat of the session. It may also be more appropriate to circulate them after the session has finished thus avoiding any unnecessary distraction - this will also help to provide a reminder of your key points. Again, a clear and attractive style will help, with maximum use of bullet points and short sharp summaries. Copies of the text of slides can be a useful supplement, too.
    - Short punchy sessions are preferable, say of no longer than forty-five minutes, rather than over-long 'lecture style' presentations. Consider playing soft background music during breaks.

#### 14.12 Staff development

Any forward thinking organisation will value its staff highly and there is no better way of demonstrating that value than by providing ongoing staff development. In addition to the factors already touched on, the following are vital:-

- Staff appraisal schemes are an ideal way of communicating particular attributes and weaknesses, and identifying future needs. Appraisal



should be geared to realistic targets, which are set in conjunction with the employee, and not in isolation. They should be discussed before implementation, and the purpose of the appraisal scheme should be discussed too.

- In order to achieve success, appraisals should be carried out at regular intervals (at least six-monthly), and all staff within the unit should be appraised to gain maximum consistency. Do not attempt to review progress too frequently, though, you may not be able to measure it effectively. It is also sensible to appraise by the cascade method - dealing with the most senior in the hierarchy and working downwards - a potholder's immediate supervisor should be the appraiser, although the results of the appraisal may in turn need to be reviewed by a more senior manager, in order that consistency can again be achieved.
- Appraisal is not something which can be launched into with no formal training, and it is essential that such training is provided for all appraisers before it is commenced. Ideally, the training should involve staff from different areas of the organisation - this will assist in the sharing of problems whilst allowing a broader perspective, again influencing corporate consistency.
- Not only does the appraisal interview provide an opportunity to identify weaknesses, but it enables the manager to recognize potential. Good customer care will incorporate the ability to spot the member of staff who is demonstrating flair in a particular aspect of the job - see if you can reward them by first discussing this potential and then identifying ways in which it can be exploited.

#### 14.13. Personnel Records

One of the most important factors in establishing an effective and satisfied workforce is to have in place good record keeping. Whilst this may be considered a centralized personnel function, all managers should keep records of their staff, to ensure that:

- decisions are based on fact rather than memory alone
- consistency is applied in respect of recruitment,
- discipline, sickness, absenteeism, accidents, etc.

Accurate records can also be useful when contributing to external statistical requirements - accurate information given may lead to accurate predictions made from the output, leading to more effective management and more satisfied staff.

As a bare minimum, records in respect of the following are required:

- personal details, next of kin, etc.
- employment history
- training details



- disciplinary and sickness details

An analysis of totals is also useful, leading to the consideration of new technology for the production and recording of information. Manual personnel files can still be effective, but computerized (or microfilmed) storage will save space, and can eliminate misfiling.

#### 14.14 Compensation and Rewards

Staff should receive adequate recompense for the work that they undertake and this can take a number of forms, the following are just some of the examples:-

- A salary commensurate with the responsibilities undertaken. Adequate recompense also reduces the incentive for employees to commit fraud and to take days away from work claiming sickness.
- An incentive payment scheme where it is considered appropriate e.g. level of tourist tax collection is – it may be possible to incentivise collection staff to be more diligent in their collections in order to improve collection.
- Permanent and guaranteed employment - a stable staff is important in building up appropriate levels of expertise and knowledge.
- Reasonable paid holidays – international norm is 20 – 25 days per year
- Re-imbursement of expenses quickly and at reasonable levels.

## **Section Fifteen**

### **15.0 General Administration**

#### **15.1 Determining Resource Requirements**

The resources provided for revenues administration are an expression of political support for accurate and equitable taxes / charges, because revenues administrators cannot meet legal and administrative responsibilities if resources are inadequate. Revenues administration offices make use of a wide variety of office furniture and equipment, including measuring instruments, cameras, micrographic equipment, word processing equipment and printers, photocopiers, telephones, facsimile machines, mailing machines, computer desktops, dictating equipment, filing cabinets, map cabinets and racks, and so forth.

#### **15.2 Accountability**

Citizens hold revenue administrators accountable for their performance.

The basic issues are:

- Is the administration fit for the purpose?
- Are the right things being done in the right way?
- Is all income being collected efficiently

Managers should plan, budget, organize, control, and evaluate work to ensure that laws and regulations are met, policies are adhered to, work is completed on time, standards of appraisal accuracy are maintained, and resources are used wisely.

#### **15.3 Planning, Scheduling, and Budgeting**

Sometimes local government budgeting decisions are based more on previous budgets or on staff sizes than on the results to be achieved through the budget. Budgets that are proposed without regard to results are vulnerable to arbitrary reduction. Available resources may be used inefficiently. Better budgeting systems are results oriented. They are based on analyses of unit costs of production or on achievement of planning goals.

Good management practice dictates the use of annual and long-range work plans to establish goals, objectives, and timetables; to substantiate budget requests; and to monitor progress. Plans should be in writing and should briefly

- outline why the work in question is to be performed;
- estimate the quantity of work to be performed;

- state production standards for well-analyzed, repetitive activities;
- estimate personnel requirements;
- estimate other resource requirements; and
- schedule tasks and projects.

Plans should be adjusted to reflect changing circumstances.

#### 15.4 Organization and Personnel Management

Symptoms of organizational problems include work bottlenecks, work not being done or being done late, and duplication of work (beyond that necessary for quality control).

Organization should be based on careful analysis of the volume of work, skills required, and realistic production rates.

Frequent breakdowns in communications are a symptom of management problems. Frequent staff meetings allow clarification and consistency.

#### 15.5 Training

Any revenues administration must have effective training procedures. These will include:-

- Induction training for new entrants
- Detailed job analysis for individual staff
- Individual training needs analysis and assessment
- Appropriate training objectives
- Training materials which are up to date and fit for the purpose
- Appropriate evaluation and review mechanisms for any training processes

#### 15.6 Quality Assurance

Revenues administration involves many complicated tasks. The work involved in any regularly performed complicated task should be documented. Steps should be described and illustrated in procedure manuals.

Standards are needed for planning and budgeting and for evaluating performance. Although standards developed elsewhere can be valuable, it is better to develop standards locally to account for the factors that affect production. Statistics on how time is used and on work accomplishments are needed to develop standards.

#### 15.7 Security Procedures

Security procedures fix responsibility for work (that is, establish “audit trails”); restrict access to manual and computerized records to protect confidentiality, to prevent loss of records, and to prevent unauthorized changes in records; and to minimize opportunities for corruption (by rotating work assignments).

An audit trail is a record of changes made to a record. It identifies who made the change (or the terminal used to make the change), when the change was made, and why. An audit trail makes it easier to recover from errors. It also makes it possible to isolate responsibility for errors or for failing to correct them. In turn, the cause of the problem can be identified. Mistakes will happen, but patterns of mistakes will identify more serious system problems.

Elements of an audit trail include computer sign-on and password procedures and requirements that paper forms be signed or initialed. Batches of forms should have transmittal sheets. At each successive stage of a process, work in the previous stage should be reviewed for completeness and accuracy before work is sent to the following stage.

## 15.8 Fraud

There must be sufficient internal and external controls to ensure that there is no risk of either internal or external fraud. Procedures must be put in place to ensure that there is no false disclosure by tax / fee payers, collusion between revenue officials and tax / fee payers, the use of false names and personating, sufficient protection against forged documents and false amendment of records. These objectives can be achieved by having a proper division of duties between revenue officials and effective internal check of day to day procedures. Further measures could include staff rotation, declaration of interests, gifts or hospitality registers and fidelity checks.

- General Principles of Fraud Prevention and the Combating of Evasion

The principles of fraud prevention can be influenced by both internal and external factors. The impact of the internal factors can be reduced by the organisational approach of the tax and income administration. The underlying theme is to ensure the organisation has in place certain functional mechanisms and rules to prevent collusion between the revenue official and the tax / fee payer and inappropriate acts by revenue officials.

The significant internal mechanisms and rules are as follows:

- Division of duties - the separation of the functions of the tax administration to that the process of assessment and collection cannot be carried out by one official.
- Internal check - the regular third party check of the administrative process either as part of the functional procedures or as a specific managerial duty.
- Staff rotation - the movement of staff to ensure that individual revenue officials do not develop permanent operational relationships with tax / fee payers.
- Declaration of interest - as part of the employment conditions of the tax official there should be a mandatory requirement to disclose any personal relationship with tax / fee payers.

- Gift or hospitality registers - the tax administration should maintain a register to record all gifts and hospitality offered by tax / fee payers to tax officials and the action taken on the offer.

The significant external mechanisms can be placed in two groups either proactive or reactive. The significant mechanisms are as follows:

- Proactive
  - the identification of exceptions and patterns in tax returns and payments.
  - The use of amnesties to enable tax / fee payers to admit without fear of retribution previous irregularities.
  - Interrogation of data bases to identify wealth patterns.
  - Investigation into the lifestyle of the tax / fee payer.
  - Inspection of bank and saving accounts of tax / fee payers.

The extent of proactive actions will depend on the extent of discovery powers in legislation.

- Reactive
  - information provided by anonymous sources and informants
  - Information provide by other agencies.
  - Declarations by tax / fee payers as part of an amnesty.

Revenues authorities should carry out detailed fidelity checks on new and existing employees as part of recruitment and appraisal procedures.

## 15.9 Risk Areas in Tax and Finance Systems

1. False disclosure of information – false information provided by the taxpayer in order to avoid payment or a reduced payment
2. Fraudulent transfer of assets – to avoid enforcement action e.g. a lien on the taxable unit
3. Foreign money transactions – transferring money abroad so as to indicate a low level of wealth
4. Fraudulent maintenance and amendment of accounts – particularly where the taxpayer is receiving a payment from the taxpayer or the taxpayer is a relative of the official responsible for amending accounts.
5. Collusion between revenues collector and tax / fee payer – to void payment
6. Creation of false or alternative names to avoid billing or enforcement action
7. Creation of ghost employees – to obtain financial reward

8. Fraudulent use of assets – illegal use of Municipality assets e.g. cars without permission
9. Forgery of documents and certificates – to obtain financial benefit
10. Fraudulent payments - refunds made to false identities.

#### 15.10 Safety and Protection of Revenues Officials

It is the duty of every administration to ensure that revenues officials work in a safe and protected environment. There must be regular reviews of incidents which threaten security to ensure that measures are put in place to maintain a secure working environment for those involved in day to day tax administration.

Violence is an ever increasing problem in today's society. It includes not only physical attacks, but also verbal abuse and threatening behaviour. A working definition of violence is:

"Any incident in which an employee is abused, threatened or assaulted by a member of the public in circumstances arising out of the course of his or her employment"

It is essential that any organisation should take measures appropriate to the specific problem and not over react to rumour and fear. There are seven steps in developing a policy. These steps ensure the solution is appropriate to the problem and the training needs of the staff are addressed.

##### 1. Find out if there is a problem.

The easiest way to find out is to ask the staff. This can be done informally by managers and supervisors or by a short questionnaire. The idea is to find out if the staff ever feel threatened or under stress in the course of their work.

##### 2. Record all incidents.

By keeping a detailed record of all incidents a picture can be built up of the problem. A simple report form can be used for this purpose. Staff should be encouraged to report all incidents.

##### 3. Classify all incidents.

All incidents should be classified by type, person involved and outcome. This analysis will assist in identifying the seriousness of the problem and the type of solution which should be sought.

##### 4. Search for preventive measures.

Once you have identified the problem you can then search for the most appropriate preventative measure.

Typical measures would be:

- train staff in anti- violence measures
- provide personal safety equipment
- introduce logging and location reporting
- introduce personal life protective measures
- develop a data base on potentially violent tax / fee payers
- reduce or eliminate cash collection
- change the layout of public areas
- introduce security measures in offices

5. Decide what to do.

Appropriate measures should be adopted to meet the needs of the problem. The measures should be discussed with the staff before implementation.

6. Put measures into practice.

Whatever measures are decided upon, they should be incorporated into a policy document which should be constantly updated as the situation develops. The policy document should be made available to all new members of staff and the adopted procedures should be incorporated into training programmes.

7. Check that the measures work.

Once you have taken steps to reduce violence they should be regularly monitored jointly by management and the staff involved. Particular regard must be given to the patterns revealed in the analysis of the incident reports.

#### 15.11 Collection Office and Reception Issues

- *Is the office sited near a public car park?*

Do you have facilities within the grounds of your office for customer parking? If you are near a public car park what are the charges? Are they prohibitive? Many people will refuse to use parking facilities because of the charges that are involved. Remember that these people are your customers and you need to retain them. Also when considering parking don't forget the disabled. Consider how people need special facilities.

- *Availability of public transport*

Again consider where your offices are sited for those customers who do not have access to cars, where public transport is a necessity. Are your offices

near or on bus routes? Do you publicise the bus routes and times in your publicity leaflets?

- *Identification of facilities*

No matter where your office is situation do not forget there are always people moving into the area. Make sure that you have adequate street signs. Make regular checks and carry out surveys with people to ensure that the signs are sufficient and that they convey the information that you wish them to. Even consider that they are pointing the right way - as silly as this may seem, it has happened!

Consider the use of regular adverts within the local press together with a newsletter regularly publicizing what is going on in your Municipality – bills are being issued / payment is due etc.

- *Use of non-Municipal facilities*

Many people, particularly the elderly may not be able to make payment at your offices or at the banks so it may be worth considering setting up your own enquiry counter within other facilities such as local shopping centres. Libraries are another source of providing information - even if you cannot provide a counter that is manned by a member of staff, try to ensure that leaflets are on display within these offices. However, it is most important that any leaflets you display are completely up to date and that any old stock leaflets are regularly reviewed and removed.

- *Enquiry counters*

The siting of Enquiry Counters is of vital importance. Wherever possible these should be on the ground floor. This helps security; it is an aid to the customer and particularly to the disabled. Do not forget that the Enquiry Counter for many of your customers is the only point of contact they have with the organisation. The impression made here is the impression that they gain of your organisation.

Make sure that all entrances are capable of wheelchair access and that doorways are wide enough to accommodate the needs of the disabled and are easily negotiated. Consider the installation of toilets, not only for disabled, but for the general public. Consider the installation of vending machines. Have a look at the signs within your office pointing to various sections - are they clearly legible?

Have a look at your switchboard - in some offices the switchboards are sited within the main reception area. The switchboard operator also acts as a receptionist - is this the best way? If you have a switchboard sited within your reception area, can members of the public overhear calls, some of which may well be confidential?

- *Enquiry areas*



The enquiry Area should be pleasant and inviting. The customer is put at complete ease when he is in a friendly, pleasant area. The psychology of colours play an important part and it may well be worth consulting an expert in this field. The furniture and fittings need to be of a high standard, but avoid going “over the top”, which can invite criticism from the customer as the wasting of public money. If you are sited in a particularly sensitive area or have violent customers, then it may be worth considering “bolting down” certain items that could be used as weapons against you. (fire extinguishers, chairs etc.)!

Seating is of vital importance - no matter how efficient you are, at some time your customers are going to have to wait.

- *Queuing system*

Do you have a queuing system? Many offices now use this facility, avoiding the problem of the “closed” sign being put up and customers in that queue having to join another queue. The space available in your office may well be limited for such a queuing system. Various options are available, such as “snaking”, to enable a longer queue to be accommodated in a smaller area. However, go and see how other organisations tackle this problem, as some queuing systems are horrendously complicated. It may well be worth considering colour coding the carpeting so that customers can follow a certain “trail” in order to reach the facility they require.

- *Appointments*

Appointment Systems are preferable because they are very useful for dealing with complex and difficult problems. Staff can be chosen according to the problem, and can be armed with all the facts before seeing the customer. When making an appointment, be sure it is kept. If there is any reason why an appointment cannot be kept, then a customer must be informed at the earliest opportunity and another appointment made as soon as possible. One-to-one interviews are usually more successful, but consider the security of the staff.

Disabled people are a special case. Some people are obviously disabled, e.g. in a wheelchair, so as soon that customer has entered the office make sure that they receive attention. It may be that their disabilities are not obvious and they need to sit down - again make every effort to ensure that they are not overlooked and that their presence has been noted.

- *Notice boards*

These provide valuable information for members of the public, but consider where you are going to place them for ease of viewing, and whether you only want them to be seen during normal office hours or for twenty-four hours a day. If you want the public to be able to view them twenty-four

hours a day, then siting the notice board near an outside window would be the obvious answer.

It is of vital importance that all Notice Boards are kept tidy and up to date. Appoint one particular officer to keep those Notice Boards in good shape.

- *Leaflet racks*

As with the Notice Boards, considerable thought has to be given as to the siting of these racks. It may be advantageous to keep like leaflets with like, Again as with Notice Boards the contents of these leaflet racks are important. Make sure that there are adequate signs within your office indicating where these racks are.

- *Play areas*

Many organisations nowadays have facilities for customers who bring in young children. It may be that your office could not accommodate such an area, but if you do can it be viewed by the parents whilst they are discussing matters with you?

- *Television and video*

Television and Video can be an effective means of putting across messages. Careful consideration needs to be given as to the siting of these facilities, and whether they are going to disrupt the normal day to day running of the office. When siting these do not forget that your staff are there for probably seven and a half hours a day and they are going to hear the same perhaps ten to fifteen minute video day in, day out. By the end of the first day they will probably know it word for word!

Consideration must be given to what is shown on this media. The same criteria apply as to Notice Boards and leaflet packs and do not forget that the customer still holds your organisation responsible for recommendation.

- *Moving messages*

These provide similar facilities as the television and video and the same sort of problems for staff. The advertising can make these moving message displays self-financing, but again you need to consider the customer's perception of it being a recommendation.

## 15.12 Personal communication skills

Personal communication skills are all-important when dealing with customers. Lasting impressions can be created; either good or bad, and an organization's reputation can stand or fall as a result. The following notes are designed to build the sort of skills that are necessary to create a positive image.

- *Communicating by telephone*

The first and most important stage in telephone communication is to get to know your equipment. Telecommunications networks are many and various, and it will be necessary to ensure that training is provided in order to get the best out of the system in operation.

It is also imperative that a consistent approach is adopted in respect of the facilities available. For example, if a call-forwarding routine is available, ensure that all staff are trained to use it, and that they know when to use it. Many other facilities will be available on a modern exchange:

- call interruption
- conference' style conversations
- call diversion
- dictation
- message waiting' bleep
- call -pickup' from other extensions
- last number redial

This list is by no means exhaustive, but it gives some idea of how the telephone can be used as an effective communications tool - remember, a telephone call can be far cheaper and more instant than most other methods of communication.

Whenever you are faced with the opportunity to review office layouts, particularly if you are moving into new premises, the siting of telephone equipment is of paramount importance.

If the member of staff is providing not only a telephone reception' service but also has access to a computer terminal, ensure that the two elements of the workstation are placed appropriately. There should be easy access to both units.

You may also wish to use the telephone response to monitor the speed of access to the appropriate computer files - there is little point in setting service standards which dictate the time taken to answer a call if the caller is left hanging on while you wait for the screen you want to be displayed!

- *Telephone skills*

In addition to training staff in the art of mastering the telephone equipment, attention must be paid to the skills required to deal with a customer. Providing basic telephone skills is a must for every organisation. Many organisations provide their own courses, possibly linked to staff induction training - this ensures consistency, and gives the opportunity to stress the message the organisation is trying to put over to its customers.

It is a good idea to supplement training in telephone techniques with a simple handbook, again distributed to every user.

- *The telephone call*

When a call is received, the customer needs to be able to identify a few basic points right at the very start:

- who they are talking to
- what part of the organisation they are talking to
- that they are going to receive assistance

You also need to identify who you are talking to.

The introduction, incorporating the above points, is vital. The manner in which the factors are introduced is also vital, and it pays to be businesslike but friendly - not patronizing or aggressive. Always try to treat the customer as you would wish to be treated yourself.

Establish the nature of the call at the earliest opportunity - Evaluate the action needed quickly, too, and be prepared to act. Do not give the impression that the call is not your problem, and avoid transferring calls wherever possible. If, as a last resort, the call must be transferred to another extension, the following checklist should be noted:

- do not say that you hope the call transfer facilities will work: be confident!
  - announce who you are to the recipient
  - announce who the caller is
  - give brief details of the reason for the call
- *Telephones and message taking*

Whilst messages should be regarded as a last resort (the customer is always going to want you to solve the problem yourself!) sometimes a message is inevitable. If so, make sure that you find out whether the caller wishes to ring back, or, preferably, let the caller know when they are to expect your (or your colleague's) return call - ask when it would be convenient to call. This is one of the most crucial areas in customer care - do not promise something that you can't deliver!

It is also vital to ensure that the customer knows that your interpretation of their message is understood - repeat it to them for clarification before you terminate the conversation.

If you are preparing a message for a colleague, or taking details before returning a call, use the following checklist:

- take written details on your notepad
- identify the message clearly, detailing what is required
- identify yourself
- note the time and date of the enquiry
- incorporate any promise of a return call that you may have made

If at all possible, keep a note of messages you have left, to ensure that they are dealt with. This can be particularly useful if the intended recipient is unable to keep the promise to respond, for example as a result of sickness. The customer will not thank you if you make excuses - and remember they should have your name!

- *The ability to listen*

Developing listening skills is an art. Formal training can again be provided, but there are some basic pointers that can be observed:

- do not rush the caller
- demonstrate an understanding of the customer's problems
- adopt a calm, confident style
- only interrupt if you wish to clarify an issue, and do it tactfully

Interruptions should be avoided if possible. They can demonstrate disinterest, and a tendency to rush the customer. It may occasionally be necessary, however, to interrupt and repeat a point made by the customer. Encourage the customer to ask questions where appropriate, ensuring that they have understood your interpretation of their requirements.

Having mastered the art of listening to a customer, you must also master the art of terminating a conversation. Some customers will continue a conversation unnecessarily, and the art in this case is to know how to terminate a conversation efficiently without causing offence. hear - witnesses can sometimes be useful.

### 15.13 Dealing with difficult situations

Having dealt with the rudiments of telephone skills, face-to-face conversation is the natural progression. It is different in many ways, and you must be able to interpret the physical signs in order to handle customers successfully.

Front line' staff should always be made aware of situations that could lead to difficulties, for example the issue of enforcement notices summonses, These events can provoke irrational, and occasionally violent, responses, and you must be prepared. Ensure that staff have a clear record of individuals who may be classified as "potentially violent" but keep such information in confidence, and never reveal such information to the person, or treat them in a manner that may aggravate or play to their weakness.

Occasionally, long queues can fuel potential awkward situations, so avoid them wherever possible, looking for signs of people who "play to the crowd" and try to share their problem. It may even be necessary to deal with such a customer in advance of others to avoid unpleasantness - but don't forget to explain your actions to others in the queue, to get them on your side!

Whilst the irrational individual can cause problems at any time, regardless of your efforts to avoid potentially difficult situations, there are a few preventative measures worth considering:

- avoid long queues
- wear a smile, and be available!
- ensure fire extinguishers, chairs, etc. are not available to be used as weapons
- install panic buttons
- security screens
- security guards
- cameras

It is essential to operate a widely available system for recording incidents. Staff should be trained in the use of the forms, and should be given clear guidance as to when such forms should be used. Follow-up action should always be taken by a senior official after the production of an incident report. \*

#### *Interview styles*

#### 15.14 Interviewing Customers

When interviewing customers, try to adopt the following appearance:

- confident
- calm
- helpful
- assertive
- smiling
- attentive

Initially, it may be necessary to let the customer let off steam, although it is always useful to find an opportunity to ask about the root of the problem. Try and reach the point where you can discuss potential solutions at an early stage.

From a purely practical common sense point of view, it is necessary to ensure that an exit is closer to you than the potentially difficult customer. Do not react suddenly, unless you are directly threatened. If you have to terminate an interview, clearly state the reasons for doing so, and request assistance to remove the customer if appropriate. Whilst you must at all times avoid any form of force, do not hesitate to call on security guards, or the Police, if the situation gets completely out of hand. Other staff should be trained to watch out for potential difficulties, and call for assistance, too.

#### 15.15 Establishing rapport

In the vast majority of cases, a form of rapport can be built up

between customer and staff. Rapport can initially be established by eye contact - try to establish eye contact for about 60-70% of the time. Too little eye contact can give the impression that you are lacking in confidence, and the customer may lose trust at an early stage. Too much eye contact and you could appear either threatening or too familiar.

Body language normally represents about 50% of the image created during an interview situation. You will need to adopt a calm and relaxed pose, taking care to avoid aggressive stances - assertive behaviour can be introduced through professional training, and is an essential consideration for front-line staff.

Don't be afraid to shake hands on both introduction and departure. This demonstrates a friendly attitude, provided that the handshake is firm (not too much of a grip, though!). During the interview, show interest by nodding and leaning towards the customer at appropriate points - you can subtly mirror the customer's body language to engage rapport. Avoid pointing at the customer at all costs, or reacting in a manner that will be taken as threatening. No matter how great the temptation to return fire, do not allow your emotions to surface.

Tone of voice is an important aspect of the interview, too. Try to practice a warm and friendly greeting, and sound interesting - avoid monotone statements at all costs. Don't raise your voice unnecessarily, though, and don't interrupt when the customer is in the middle of making a point. Match the customer's style of speech where appropriate, making them feel at home - you can do this without appearing patronising.

#### 15.16 Staff attitudes

Good customer relations will be demonstrated if staff feel proud to be part of your organisation, so ensure that your employee training emphasizes this point. Always convey the attitude that you would like to experience yourself. Always appear helpful and remember that the customer's first impression will be not only the one that lasts, but the one that they have of the whole of your organisation.

The customer's problem needs to be owned by your front-line representative at the earliest opportunity, even if it belongs to someone else. Empathy with the customer must be demonstrated, and in no way must another part of the organisation be blamed simply because you are the wrong person to deal with the enquiry. Avoid the temptation to imply that the customer should have seen the sign to the other department - they aren't in the building all day!

There will however be occasions when you will have to refer the customer elsewhere. You need to know how far you can go, and you need to be prepared to interrupt and state that you will need to get further assistance. The principle of employing highly-trained, well paid and presentable all rounders is worth considering - avoid the temptation to place new employees on the counter because they aren't initially productive in the back office! If the



trained employee does reach the limit, however, it is necessary to explain why the limits exist and where the roles of others start.

Building customer confidence is an art. It takes time and effort, and can be supplemented by professional training. There are, however, some instantly visible signs that should impress the customer:

- take notes, avoiding untidy scraps of paper
- consider issuing a copy to the customer
- consider giving receipts for forms handed in
- explain how long action will take

#### 15.17 Image of the organisation

The image of an organisation is all important. The first mistake to avoid is thinking that your organization's image is already good!

The customer will value a corporate identity for ease of identification. This identity will give a feeling of belonging, and a public organisation needs to cultivate such a feeling.

Staff need to be trained to ensure that the organization's image is consistently applied at all levels. The image can only be truly effective if it is adopted from top to bottom, and in particular senior management should demonstrate it visibly.

Having decided on the need for a corporate approach, the immediate visual image is all important. Consider the development of an eye-catching 'logo' possibly incorporating recognizable aspects of your area.

Public perception can be influenced by the use of questionnaires and customer surveys. Negative perceptions can also be created easily. Before embarking on major changes, consider seeking the views of customers. New images cannot be cultivated overnight, and mistakes can be made if changes are introduced without consultation, and in a fragmented and piecemeal manner.

#### 15.18 Appearance of employees

First impressions are lasting impressions! The corporate identity is important again, and staff should be recognizable, and easy to distinguish from customers! The following list includes several items to consider:

- easy to read name badges
- attractive leaflets
- departmental house style or colour
- staff uniforms

Name badges and leaflets should all incorporate the organization's logo, which should also be repeated on all correspondence.



Front-line staff should be expected to maintain a very tidy appearance at all times. Dress is important, as are hair styles, and standards of cleanliness. Smart staff will convey an efficient image, so it is not unreasonable to insist on minimum standards of dress, etc.

#### 15.19 Venues for communication

- *In person, office based*

It may be worthwhile considering having separate booths where a one-to-one interview can be conducted. This will obviously involve a more spacious office, but it is more personal and allows customers to discuss confidential matters in greater detail. It is more personal than a telephone call or a letter.

There is a psychological advantage of meeting the customer within the office, because it is your territory and it gives you the advantage. Irrate customers love to play up to an audience - get them away from the other customers as quickly as possible and, as previously stated, if separate interview booths are available, this is a way of calming down customers. However, security of staff is of prime importance, and must be considered on a one-to-one interview basis. Private interviews offer customers who have confidential matters to discuss a much more relaxed environment. Make sure that your interview rooms are sufficiently sound-proofed and interviews cannot be over-heard by other customers.

Advance appointments are very effective as you can prepare your case before seeing the customer. However, appointments are very resource-consuming, and you must make sure they are kept to! If there is any reason at all that you cannot keep the appointment, advise the customer at the earliest opportunity as it is most frustrating for a customer to turn up only to be told that the member of staff is not available to see them. By familiarising yourself with all aspects of the case, time is not wasted phoning around other Departments.

- *Home visits*

Home visits involve a lot of staff resources and are time consuming. For those customers who are house-bound, home visits are a necessity and can be the only contact they have with your organisation. Be fully aware of your customer's needs - they may be disabled, deaf or partially sighted. Be aware of this if at all possible before making your visit, and be prepared. Make sure that the customer actually requires a home visit, as it is very easy for customers just to request them rather than come down to the office. Make appointments before the visit to a customer's home where possible. If of course it is a fraud visit, then don't bother making an appointment-just turn up un-announced - it is surprising what you will find out! Give consideration to appointments within time bands - possibly, say, a two hour time band. We all have experienced the problem for example of

other organisations saying they will turn up on a certain day-you have a day off work and they don't turn up.

The advantage of home visits for the customer is that it is their territory. They may be more at ease discussing a problem in their home. They will have all the paperwork that is relevant, which possibly they couldn't bring to the office. Make sure that you have all the necessary documentation to take with you on the visit, and if this is not possible, make sure you are able to contact the office, for example by mobile telephone, to obtain further information. Don't ask to use the customer's telephone. If this is unavoidable, then offer to reimburse the cost of the phone call.

#### *15.20 Other organisations*

If you have regular Customer Care or liaison meetings, invite representatives of other organisation to your meetings. Go out and talk to them about your work and your problems. There are some very good ideas coming from these people - listen to them and take note. Don't take it as criticism against you, and don't get upset. Take all remarks and suggestions in a constructive manner. Wherever possible, act upon these-if the organisations can see that you have reacted to one of their suggestions, it improves their perception of you and your organisation.

- *Public utilities*

Consider involving Gas, Water and Electricity Entities. They probably all have the same customers as you. Make contacts and set up regular liaison meetings. The chances are that if a customer has a problem with you, with regard to say, repayment of a debt, they have a similar problem with the public utilities. Decide how you are going to deal with this. Set up working groups and meet regularly. Come to joint decisions and discuss cases.

## Section Sixteen

### 16.0 *Performance Measurement*

#### 16.1 Measuring Performance

Without doubt, one of the most important aspects of revenues collection is measuring performance to ensure effectiveness and efficiency. Municipalities as public sector organisations are accountable to their charge payers.

#### 16.2 Definition of Performance Management

Performance management is taking action in response to actual performance to make outcomes better than they would otherwise be. This performance might be at an individual, team, service, corporate or community level.

- To know what action to take,
- Performance has to be monitored.
- To know how to judge performance, criteria must be agreed (*aims, objectives and targets*).
- There also needs to be a method of assessing performance against the criteria (*performance measures*).

#### 16.3 Links and Overlaps with other aspects of the Organisation

Applying this to a whole organisation requires some systematic application and coordination. Performance management links and overlaps with other aspects of the organisation, such as leadership and culture and some of these links are essential to performance management actually being used effectively in generating better outcomes - the purpose being to deliver better quality services to local people – the key reason that Municipalities exist.

#### 16.4 Users of a Performance Measurement System

A performance measurement system can have a multiplicity of users. These users might include:

- service users, and the general public, including interest groups and the media;
- central government;
- national and local politicians,
- managers at all levels in the organisation.

The performance measurement system should not only report performance but also incorporate an evaluation and review process to consider whether it

is measuring the right things in the right way. But indicators should not be amended too often otherwise long-term trends and comparisons will be lost.

#### 16.5 Why measure performance?

The emphasis on performance measurement carries with it the risk that the process becomes an end in itself. It is important that organisations do not lose sight of the fundamental objectives of performance measurement:

- **Improved public services.** Performance measurement is one essential element in performance management to secure continuous improvement in public services and contributes to effective services.
- **Improved accountability.** Clarifying the outputs and outcomes that are achieved for the resources used makes it easier to hold organisations accountable.

Performance measurement can help organisations improve performance by identifying good practice and learning from others. It can also ensure that the organisation is focused on its key priorities, and that areas of poor performance are questioned.

#### 16.6 Choosing Performance Indicators

Identifying opportunities for improvement is only a start. The choice of performance indicators will have a major impact on the behaviour of the organisation. It is, therefore, necessary to understand the processes that will have a beneficial impact on performance, and to choose indicators that reflect these. Organisations should develop their processes for reviewing performance and ensure that the lessons learnt are fed back and used to review objectives and are included in their strategies for service development; and that they continue to monitor performance to ensure that the improvements are achieved.

#### 14.15 The principles underlying effective performance measurement:-

- **Clarity of purpose.** It is important to understand who will use information, and how and why the information will be used. Stakeholders with an interest in, or need for, performance information should be identified, and indicators devised which help them make better decisions or answer their questions.
- **Focus.** Performance information should be focused in the first instance on the priorities of the organisation, its core objectives and service areas in need of improvement. This should be complemented by information on day-to-day operations. Municipalities should learn how indicators affect behaviour, and build this knowledge into the choice and development of their performance indicators.
- **Alignment.** The performance measurement system should be aligned with the objective-setting and performance review processes of the organisation. There should be links between the performance

indicators used by managers for operational purposes, and the indicators used to monitor corporate performance. Managers and staff should understand and accept the validity of corporate or national targets.

14.15.1      **Balance.** The overall set of indicators should give a balanced picture of the organisation's performance, reflecting the main aspects, including outcomes and the users' perspective. The set should also reflect a balance between the cost of collecting the indicator, and the value of the information provided.

14.15.2      **Regular refinement.** The performance indicators should be kept up to date to meet changing circumstances. A balance should be struck between having consistent information to monitor changes in performance over time, taking advantage of new or improved data, and reflecting current priorities.

14.15.3      **Robust performance indicators.** The indicators used should be sufficiently robust and intelligible for their intended use. Independent scrutiny, whether internal or external, helps to ensure that the systems for producing the information are sound. Careful, detailed definition is essential; where possible, the data required should be needed for day-to-day management of the services.

## 16.8 Strategic Objectives

Performance measurement should be at the heart of the organisation's management. Organisations will have general goals which will set the framework for their strategic objectives. These strategic objectives should be communicated so that each manager understands how the targets that he or she is working to contribute to the effective performance of the organisation. These will need to be co-ordinated with the operational service measures developed by managers to form a coherent whole. The performance measurement system will therefore have a hierarchy of objectives, action plans and indicators, reflecting the structure of the organisation.

## 16.9 Alignment with the Management of the Organisation

Alignment of performance measurement with the management of the organisation has two benefits.

- First, performance is more likely to be 'owned' by the managers and staff concerned, making it more likely that opportunities for service improvements will be identified and acted upon.
- Secondly, regular use of the information will increase its reliability and accuracy. Not linking the performance measurement system to existing management and budgeting systems will create parallel, non-integrated and resource-consuming systems.

## 16.10 Collection of data

The first step is to identify the purpose for which performance information is collected. Collection of statistics for statistics sake will not only waste valuable resources, but could also lead to loss of credibility.

An effective performance measurement system needs robust performance indicators. There are a number of general characteristics of performance indicators that should be checked to ensure that they will be useful, informative and effective. Indicators should:

- be relevant to the aims and objectives of the organisation;
- be clearly defined, to ensure consistent collection;
- be easy to understand and use;
- be comparable, and sufficiently accurate to allow comparisons between organisations and over time;
- be verifiable, by senior managers, auditors and inspectors. Independent verification of performance is recommended and reduces the likelihood that organisations will risk trying to manipulate the data;
- be statistically valid, so that false conclusions are not made;
- be cost effective to collect, so that the benefits of using the information outweigh the cost of collection. This is most likely to occur when the information is used routinely for operational management;
- be unambiguous, so that it is clear what constitutes good performance;
- be attributable, so that the responsibility for achieving good performance is clear;
- be responsive, to reflect changes in performance clearly;
- avoid perverse incentives and the risk of skewing outcomes, and encourage behaviours leading to service improvement;
- allow innovation in service delivery; and
- be timely, so that the information is not out of date. This will depend on the use made of the data. Data used in operational management may be collected on a weekly or even daily basis, whereas data used for strategic and long-term planning may be collected only annually.

### 16.11 Accuracy and Frequency of Data Collection

Data collection should be carried out systematically. The accuracy of data is equally important. Utilising computer systems wherever possible, to improve on accuracy and to avoid overcomplicated manual collection methods. The production of statistical information in computer systems is as important as developing the core functions of the system.

The frequency of data collection is one of the major factors to be considered. Too frequent collection can reduce potential economies of scale, and can detract from the main purpose of the organisation. Backlog situations may need to be measured more frequently, perhaps weekly, whereas cash-flow patterns are unlikely to be useful more frequently than once a month.

Take care to ensure that “average” performance is not extracted from data that has been collected too infrequently - for example, when collecting information in respect of the average time taken to respond to correspondence, allow for peaks and troughs, otherwise a distorted picture can be presented.

The collection of data is not just for generating information for customers. It can provide valuable information for staff, too. Staff will feel part of an organisation if you feed data back to them. Not only can the information be used to inform, but it can play a part in managing performance and setting targets.

### 16.12 Presentation of data

Statistics generated by computer systems can be presented in a variety of methods, including the following:

- numerical
- graphs
- bar charts
- pie charts
- scatter' diagrams

The great advantage is that after a little time and effort spent preparing the initial criteria, regular updates can simply overwrite the previous set of data with very little effort.

Given the advances in technology and the introduction of personal computers in to the Municipalities there is little reason for not producing performance management information in this manner. In terms of presentation, customers and other interested parties will react positively to a crisp style of presentation, and with the aid of simple desk-top publishing, information can be professionally produced with very little training and in a very short time.

### 16.13 Monitoring the results



Statistics are meaningless if they cannot be interpreted and put to good use. Consequently introduce clear procedures must be introduced for analysing them and taking action on the findings.

As a management tool, the presentation of statistical information can be very effective if it is introduced into team meetings. This should form a regular part of the meeting, and the output should be discussed to identify trends that need addressing, for example a sudden reduction in income, or an increase in the number of complaints in respect of a particular section.

In addition to considering the needs of internal management and of course the customer, local politicians need to know how the Municipality is functioning. Statistical data, presented in an attractive style, is likely to have much more of an effect than a lengthy and wordy report – elected politicians will have more than enough paper to get through without having to search for the information they need. Try to highlight the main changes, and include short accompanying paragraphs explaining, for example, the sudden deterioration in cash-flow.

Statistical information may even be linked into personal staff performance targets, and introduced into an appraisal process, but be careful to allow for external influences, and be prepared to be flexible if necessary.

In summary, ensure that the questions - why the change / what's gone wrong and how do we address the change / problem? are always asked when monitoring the information. Further information on monitoring is provided in section 15.18 onwards.

#### 16.14 Publishing the results

The circulation of information should be planned in advance. There is a need to identify where the information would be most useful (for example, displaying information on queuing times in the cashiering/enquiry areas), and there is also a need to ensure that it is dispatched promptly - there is nothing worse than receiving a quarterly report on cash-flow after the end of the following quarter! The more up-to-date information, the better the impression left on the customer.

#### 16.15 Using performance indicators

Performance indicators can be used within the Municipalities and outside of it. They can prove useful if they are linked in to any of the following documents:

- mission statements
- business plans
- annual reports
- service statements
- customer charters'
- leaflets
- newssheets / press releases



- posters
- staff bulletins

Municipalities may wish to take the bold step of issuing “service guarantees”, with redress if not met. Again, careful research will need to be carried out, but it is not unreasonable, for example, for customers to receive a small amount of compensation if their tax refund is not dealt with within an acceptable period of time.

This type of redress will also serve to focus attention clearly on the need to provide an effective service, and to identify which refunds have been outstanding the longest.

#### 16.16 Performance targets and measures

There is always a danger that financial performance dominates the performance review process because it can be more readily quantified in a given format and because financial concerns often dominate contracts and the internal market. Performance review should include:

- quality of service
- quality of employment
- financial matters
- organisational performance

The following are examples of targets and measures. It is important to select and agree these targets and measures at an early stage.

- **Quality of service performance review**
  - Quality of services
    - complaints received
    - speed in rectifying complaints
    - user satisfaction on quality and level of service
  - Service improvements
    - % of planned improvements implemented
- **Quality of employment performance review**
  - Staffing
    - trends in productivity levels
    - level of job satisfaction
  - Training
    - number of staff completing in-house or external training
    - number of staff completing identified training programmes
    - % skill shortages reduced

- Equal Opportunities
  - % achievement of women and ethnic minorities employment targets
  - increased access for users
- Health and safety
  - reductions in accident rate
- **Financial performance review**
  - Financial targets
    - collection levels
    - annual cost per taxpayer/household
    - trends in overheads as a % of total costs
    - comparison of prices/costs with other Municipalities
- **Organisational performance review**
  - Organisational changes
    - implementation of management information and financial monitoring systems
    - implementation of reorganisation proposals

#### 16.17 Performance Review

The concept of 'performance' is not always easy to define in relation to local government services. One useful way of thinking about performance is to consider it as having two distinct elements:

- service *efficiency* - means providing the right services to enable the local authority to implement its policies and objectives and
- service *effectiveness* - means providing a specified volume and quality of service with the lowest level of resources capable of meeting that specification.

Performance review should involve two distinct activities: monitoring and analysis.

#### 16.18 Monitoring

Monitoring is the regular measurement of actual performance against some standard, target or unit of planned performance. It involves the regular and systematic collection of data, although the frequency of monitoring will vary from daily to annually, depending on what is being monitored.

#### 16.19 Measurement Criteria

In order for monitoring to take place, suitable criteria of measurement must be defined. It is helpful if these are quantitative. Some of the most common forms of measurement are:

- *Cost indicators –*

The actual cost of providing a service or unit of service-preferably compared to a unit, standard or targets cost-for example, cost per bill issued.

- *Productivity indicators –*

The amount of useful work done by staff in a defined length of time, for example number of parking fines issued per person hour. Number of tax bills issued per member of staff.

- *Utilization rates –*

The extent to which available services are used-usually expressed as a percentage, for example, occupancy rates of properties charged the tourist tax.

- *Time targets –*

The average time taken to complete or carry out defined units of work, for example, the time taken to process construction land applications, land use applications or complaints,

- *Volume of service –*

A crude measure of work performed, for example, the number of bills issued during the fiscal year.

- *Demand/service provision indicators –*

Usually a crude measure comparing volume of service available or provided against some broad concept of potential demand, for example, acres of open space per 1000 population, or provision of children's playgrounds per 1000 child population. In some cases such measures can be defined by comparing service provision to a more precise measure of 'demand', for example, tourist beds available compared to expressed demand and income collected.

## 16.20 Types of Comparison

Few of these measures provide an absolute statement of the efficiency or effectiveness of performance. Rather, they provide a comparison with something else.

Generally, five types of comparisons are used -:

- Time –e.g., comparing this year's performance on collection with the previous year.
- Standards - comparing actual performance with some standard which may be locally or nationally derived. E.g. setting a target for the level of real estate tax to be collected in the fiscal year.

- Intra-service - comparing the performance of a number of units or sections within a department who provide a similar service, for example, different departments providing billing services or cash collection services.
- Private sector - comparison with private sector provision, where such comparisons are possible, for example, in financial and computer services.
- Inter-authority - comparisons can be made with:
  - other local authorities
  - specially selected local authorities which have similar characteristics
  - neighbouring local authorities.

#### 16.21 Purpose of Performance Measures

In measuring performance Municipalities should bear in mind the types of income being collected and the purpose for which the performance data is required. These may include:-

- Inter authority comparisons (allowing for differences in structure and approach)
- Comparison over time with the intention of monitoring trends and improving internal performance / quality
- The monitoring of service outputs and quality for delivery of specified targets within service agreements / contracts.

#### 16.22 Examples of Performance Measures

- Financial Performance Measures
  - Comparison of net expenditure of service against budget
  - Cost per income item
  - Cost per debtor account
  - Ratio of cost of recovery to total income recovered
  - Ratio of cost of recovery to total debt outstanding
  - Cost of legal action against net debt recovered
- Input Performance measures
  - Income / debt recovered per full time employee within the enforcement section
  - Income / debt recovered by each direct collection point
  - Full time staff per number of accounts
  - Experience and qualifications of staff

- Output Performance Measures
  - Total amount of debt outstanding by monthly / period and trend over time
  - Age profile of debt and trend over time
  - Level of uncollected debt / write offs as a proportion of total – numbers and amounts
  - Success rates – amounts / numbers – in legal actions
  - Speed of bankings / frequency of collections
  - Average time to issue accounts
  - Average time to issue reminders
  - Average time taken to reconcile accounts / bank reconciliation
  - Average time to records transactions
  - Meeting the timetable requirements for billing / close down of accounts
  - Responding to enquiries and correspondence
  - Waiting times for personal callers

### 16.23 Analysis of Performance

Most of the indicators are limited and crude in what they tell us about 'performance'. They cannot measure the affect services have, or anything which is not easily quantifiable, so they must be used with care. Regrettably there is often a tendency with some politicians and officials to make sweeping judgements on the basis of such measurements

The art of assessing and reviewing performance must, therefore, lie in knowing when to allow political and professional judgement to extend the knowledge gained from a determined attempt to measure performance.

Monitoring looks at what is done - at what level, at what cost, with what effect and how efficiently. Analysis looks at how it is done. Implicit in this is the belief that it might be done better in a different way. Programme analysis takes the process further and asks: 'Is the service still required?' 'Can its objectives be satisfied by a different means?'

Unlike monitoring, analysis of performance is likely to be an occasional and ad hoc activity that arises when:

- officials and/or politicians judge that a review is needed, for example because they are concerned about the level of performance
- the regular monitoring of performance indicates that there is a variance between actual and planned / target performance which demands analysis and correction.

### 16.24 Important elements of any analysis

The most important elements of any analysis are:

- The problem or issue needs to be clearly stated.
- It is necessary to understand the purpose of the service and the needs it meets.
- All constraints on the service, for example political, financial or legal, need to be clearly understood.
- Anything which can be quantified should be, for example, resources used, services provided and needs being met or still unmet.
- A report of appropriate level and detail must be produced for the group or committee concerned.

A clear course of action must follow from the analysis.

#### 16.25 Appropriate Analytical Management Techniques

Virtually all analytical management techniques are relevant, depending on the kind of review being carried out and the nature of the service being reviewed. Bringing in the specialist skills of operational research, statistical analysis and social research may be valuable in more ambitious reviews. For example, a review of the operation and pricing policy of public car parks might make use of operational research techniques such as queuing theory and sampling.

Where specialist skills are used they need to be brought together with the skills and knowledge of staff in the departments under review. Setting up working groups and teams for specific reviews is important. However, many reviews can be carried out more simply, without the use of any special techniques, drawing on the knowledge and experience of senior management and of the staff in the department under review.

#### 16.26 Procedures for carrying out reviews

There are numerous review procedures within local government and different types will be suitable for different authorities. Many local authorities may prefer to retain an experimental and ad hoc approach, but there are a number of reasons why some form of agreed procedure is worthwhile:

Monitoring should be a routine activity across the whole Municipality. Comparisons need to be drawn, but some uniformity of approach needs to be laid down,

- Ad hoc reviews can be of uncertain status. This may cause confusion and reduce their impact.
- Review work is time-consuming for members and officials
- It is important that the nature and level of their involvement is appropriate to the topic under review.
- Guidelines on the composition of groups may be of value.

- Review findings must be given proper consideration. A clear procedure for presentation will help here.

The procedures, which are set up, should deal with the following issues:

- How can reviews be initiated? Although most reviews should arise from heads of department or managers themselves, it may be necessary for a central committee to initiate a review of a specific service area. Similarly, a central body can set up reviews of issues with authority- wide implications. The procedures for this need to be clear.
- What is the purpose of the review? Much time and effort has been wasted on studies that addressed issues that were subsequently seen to be unacceptable politically, or on studies which missed the main issues. Some terms of reference are needed for all reviews and the terms need to be understood by all concerned.
- What is to be involved? Major issues may need the full and regular involvement of politicians and managers. They may need to hear evidence, interview individuals or make visits. On the other hand, an official may deal with minor issues with only the final report going to the politicians. There are a number of intermediate arrangements between these two extremes.
- Who will receive the report? It is normal for the commissioning committee to receive the report first, but where this is a central committee looking at a particular service it may be appropriate to ask the committee concerned for comments first. Whatever the process adopted it should be agreed beforehand so that all concerned are aware of it.
- Who will act on the report? Services are normally reviewed to improve them. It is, therefore, essential that the review does not remain just that, but that something happens. Someone should be responsible for securing action and seeing that the review process itself is cost effective.

#### 16.27 Setting and Pursuing Achievable Objectives

Objectives in the context of revenues collection must be achievable. There is little point in setting targets that cannot be realised, as these will damage morale. Those involved in the collection process must be part of the setting process. This can be achieved by the creation of staff focus groups that use all the data available to fix objectives that are within the scope of their administrations ability and resources.

Ultimately management must take responsibility for the targets and put in place the procedures for achieving them. The accepted procedure for controlling aspirations is "SMART"

**Specific**  
**Measurable**

**Achievable**  
**Realistic**  
**Timebased**

- Specific – the target is specific to the service and easily identifiable within the context of service delivery.
- Measurable – can easily be measured, in that the data is readily available and is reliable.
- Achievable – the target is within the scope of the organisation and has not been set outside a test of reasonableness.
- Realistic – that the target is realistic when taking into account all the factors which are impacting upon the organisation.
- Time - based – is based upon a time frame that is repeatable so that comparison can be achieved

To these specific items could be added a further “S” which would be “slightly stretching.” In the context that from year to year the targets should demand more of the organisation.



## **Section Seventeen**

### **17.0 *Standards of Performance and Codes of Ethics***

#### **17.1 Mission statement**

An important first stage in any work towards achieving excellence is to go right back to basics and ask yourself what you are here to do. What does your organisation/section exist for? Keep it simple - try not to tie yourself up in legislative requirements, but look at the underlying reason for your organisation's existence. Decide one or two sentences which describe what you do, in words that customers, staff and visitors can all understand. This is your "mission statement".

The statement should be decided by the people who do the job. It should not be imposed by management, but allowed to develop. The people who do the job must feel that it is their mission statement.

Deciding your mission statement is an excellent exercise in making you think about what you do. It gives an opportunity to take a step back from the daily grind. It helps staff to realise they are part of a team, and think about more than just their part of the overall task.

This is an essential starting point for any work on quality issues and a Business Plan. It tells your customers what you do, and helps you to direct your plans towards the overall aim.

Remember that your mission statement is not set in tablets of stone - it may change as your unit/organisation changes. If your work changes, change your statement.

#### **17.2 Aims and objectives**

These follow on from the mission statement, and are more detailed. Depending on the style/type of organisation, they may be decided by senior management and cascaded down to other levels. Alternatively, they can be decided at the bottom levels and fed upwards. Bear in mind that participating in setting the aims and objectives encourages real involvement in achieving them.

Aims and objectives must be clear, and be communicated well within your unit/organisation. Commitment from the top is essential, and must be seen to be there. All staff need to be aware of the aims and objectives.

They can be displayed to the public - their views should have contributed to the setting of your aims and objectives, so let them see the results.

As with the Mission Statement, your aims and objectives may need updating from time to time.

### 17.3 Development/review of policies

Decide why you need a policy, and who it is aimed at. Have a clear purpose for creating any policy.

Make it fit in with your aims and objectives e.g. does your customer survey policy fit in with what you say you want to achieve?

Make it relevant, and publicise it. Write a policy with your customers in mind, making it easy for them to understand. Let your staff know why you need the policy, and what is expected of them - consider a formal presentation, with a chance for questions to be asked.

Decide whether there are to be any penalties for not complying with the policy. If yes, specify the penalties, then make sure they happen.

Review all policies regularly for relevance. Check whether they are fulfilling their purpose. Could they be improved, or should they be updated? Ensure new staff coming into your organisation are made aware of relevant policies, and that existing staff are told of changes.

### 17.4 Business plan

This is a formal statement of where your unit/organisation is going. It includes the purpose, how this will be achieved, and the resources you have/need to do so.

It must fit in with the organisation's overall aims and objectives - it is part of the "grand plan", but relates specifically to a business unit within that plan. Ideally your Business Plan should be produced by the whole team within that unit.

The Business Plan will bring together your statements and standards. It incorporates the mission statement, aims and objectives and explains how these will be met.

Your plan is an excellent basis for work on quality issues - the process of compiling the plan makes you think about what you need to do, and encourages you to take your customers' needs into account.

A Business Plan is not a static document - it needs regular review and update, at about six monthly intervals, unless circumstances change more regularly. Consider a major "overhaul" at less frequent intervals.

### 17.5 Office procedures

Proper procedures are needed to enable you to consistently achieve your aims and objectives. They help you to provide your customers with a proper service, and assist in keeping to time deadlines.

Before you start you must decide which procedures you need, and the priorities for setting them up. This is a practical exercise, as thinking about procedures may start the process of improving the way you do things. Remember that procedures are not just for you; they are for customers' benefits as well.

Procedures need to be written down e.g. in a procedures manual available to everyone. Resist the temptation to make them complicated - they should be easy to understand and follow. It is useful to develop a "house style" to ensure consistency, especially if the whole team is involved in writing your procedures.

Procedures need to be monitored, to check that they are being used. If they are not, it may be because they are badly-written, or totally impractical. Be prepared to change procedures as the need arises. From time to time, check the relevance - are they achieving the correct end result?

## 17.6 Computing Resources

### Use of Computers in Revenue Administration

The use of computers in revenue billing, collection and enforcement is essential to the efficient and effective administration of local taxes and charges. In addition they are essential for accounting purposes, and they are being increasingly used for document management and workflow. Document management is the process of digitising incoming communications so that they can be held electronically and introducing those communications into an electronic workflow system which ensures that the administration is organised efficiently.

Any computer system must produce key management information that adds to the efficiency of the collection process. The management information must produce performance indicators, forecasting, cash-flow and any other information that will aid the management process.

The system must display absolute accounting integrity and must have adequate controls and properly indexed system documentation. In the modern context computer resources are being linked in to web-based solutions which rely on sophisticated electronic government processes. These processes enable taxpayers to access information via web-sites and other electronic means.

## 17.7 Quality of computer software

Set standards and criteria for the choice of software. Ensure it is staff/customer friendly e.g. a system may do calculations very efficiently but produce bills letters that no-one can understand.

Consider whether software is suitable to operate alongside other systems in use e.g. will the customer be able to understand the information for two different systems easily, or will the information conflict or confuse?

Do some research before you choose a system. Check with other similar organisations and ask for their views - what have they chosen, and why? Establish whether the system provides what you and your customers want now, and whether there will be enhancements and updates available at a later date and at a reasonable cost.

Consider whether the supplier is reputable and reliable - you need the system to be delivered on time. Check the back-up resources of your supplier, in case you need help. Choose a supplier who can sort out problems quickly. Computer problems should not inconvenience your tax payers.

#### 17.8 Total quality management

This phrase relates to taking a quality approach, from all angles, to achieve the organisation's aims and objectives. Procedures, customer care and staff training and development are all taken into account.

It provides an excellent structure for a culture change within your organisation, and can be used for all-round improvements. Staff can benefit from increased job satisfaction, and level of customer satisfaction should improve.

The introduction of this quality-driven approach must be actively led and can initially be implemented by a project leader with a team representing the varying parts of your unit. The team needs to be directed, but should still involve all members of staff. The team needs to be given the power to make changes and to make the occasional mistake - it is all part of the learning process! Customer involvement e.g. by surveys, focus groups should be encouraged.

Time must be allowed for thinking, talking, planning and training. Encourage some free thinking, with meetings away from the workplace if possible.

The benefits of a total quality management approach include increased customer satisfaction, reduced complaints and better liaison between you and your customers. The "project" approach can be dropped after a period of time, when your staff have accepted the idea of ongoing improvements as part of the culture of our unit. If you are starting from scratch, this demands a lot of hard work, but it should be interesting and the rewards for staff and customers can be excellent.

#### 17.9 Service standards

It is very important to set standards to suit your customers, and to make the standards very clear to them. Publicise the standards you have set, but make sure they are achievable!

To set standards for your customers, you must find out what your customers want and/or need. This should involve regular customer surveys. Be prepared to vary the type of survey, depending on what you are trying to achieve. Do not take the easy way out, and assume that you know what your customers want - be prepared for some surprises!

Having asked customers what they want/need, you need to be realistic about what you can provide. No organisation has unlimited resources, but take your customers' views into account when deciding how to make best use of the resources you have.

Needs change from time to time, and the service standards should reflect this. Regular surveys will help you to keep a current view of which standards are relevant. Particular problem areas may be highlighted by monitoring the number and nature of complaints - a type of negative survey.

One means of telling your customers what to expect is to provide them with a "service statement". This should encourage them to be more realistic about what can/cannot be done.

#### 17.10 Service level agreements

This is a support agreement, between two areas of work, to enable service standards to be achieved. The first stage is to decide where such an agreement would be useful. It can be an effective way of formalising arrangements for outside services which you need if you are to provide your service e.g. enveloping or mailing arrangements.

The agreement must be achievable by both sides, who should from the start be able to talk openly about any problems in meeting the agreed standards, time limits etc.

Both sides' needs and problem areas must be discussed before drawing up an agreement; this helps to foster a good working relationship. Be open about the problems, so that quick solutions can be found. Always discuss an agreement, rather than impose it - this makes it more acceptable to both sides.

Consider the use of a penalty clause i.e. decide if there needs to be some form of redress (not necessarily financial) if the agreement is not respected.

Monitor and review your service level agreements. This enables problem areas to be highlighted at an early stage, when they are much easier to solve. Introduce formal review meetings at regular intervals, with a chance for both sides to speak openly and constructively.

### 17.11 Service statement

This is your promise to your customers about what you will provide, so be specific, clear and simple.

Make it realistic - do not over promise. Offer the level of service you know you can provide, not what you would like to be able to provide!

Make the statement public. You need not be afraid of publicising the statement (e.g. on literature, in your foyer) if your promises are realistic. Include information about your service with application forms and letters where relevant. Put up posters in your offices, and other places where your tax payers are likely to see them.

Very important - make sure your staff are trained to provide the service promised. The service statement must be backed up by action!

Make provision for complaints. There will never be one hundred per cent satisfaction, so put a good complaints system in place.

### 17.12 Complaints procedures

- *Complaints policy*

This is an essential part of your Organisation's Customer Care Policy. We all have the best intentions, but nobody is perfect. Customers need to have an easy and effective means of complaining when things go wrong.

The Complaints Policy should set out the aims for dealing with complaints. This should include references to being courteous and resolving complaints quickly. You need to ensure a consistent approach across all parts of your organisation. You must have a procedure to keep the complainant informed, and tell him of progress with his complaint.

The advantage of a complaints policy is that it helps to identify problem areas. It gives your customers a chance to say what is going wrong, and to be told of what is being done to put things right. Office procedures may need changing, or customers may need to be better informed. Your complaints system can be seen as a negative form of customer survey!

- *Officer contact*

You need to choose the officials who will be the contact between the public and the organisation. Decide if you want one officer contact per department, per team, or for the whole organisation. Also decide whether the contact officer is to be at practitioner or manager level. It is usually best to try and solve problems as close to the source as possible. Name the chosen officers in any publicity about the complaints procedure. Customers want to know who to complain to.

Consider a co-ordinator for the whole organisation. No-one can be an expert on all aspects, but it may help in ensuring a consistent approach to the way complaints are dealt with across the organisation. It also helps if a complaint refers to more than one area of work. The duties of the post may well include acting as a mediator/independent arbiter where customers are not satisfied with any specific officer's treatment of their complaint.

The duties of contact officers must be made very clear - all contact officers and the co-ordinator need to know exactly what they are responsible for. Decide whether the contact officer will pursue the complaint to its conclusion, or pass it on to another more suitable officer e.g. in the case of a technical / specialist problem.

Last, but not least, make sure all complaints officers are properly trained. Do not make the complaint worse by having it investigated by someone who is not capable of dealing with it.

- *Publicity*

Your complaints procedure needs to be publicised if it is to be effective. Decide how much publicity is needed, and where. Put leaflets and posters where your customers can see them e.g. in the Inquiry Offices, Local banks etc. If you have a big "launch" when you set up your procedures, make sure you have the back up available to deal with the results.

Include your definition of a complaint. Let your customers know what aspects you are prepared to deal with. Consider excluding legislative matters which have an in-built appeal procedure, also policies which are not under officer control. Complaints are of course acceptable about the way in implement those policies, and about how you deal with your customers.

Consider designing a complaints form / leaflet, as a means of achieving consistency, and gathering all the information you need. Keep it simple, but don't insist on people completing it - complaints should be accepted in a manner convenient to your customer.

If your customer is still dissatisfied after the initial investigation, let him know what the next stage is. This may include the offer of an independent review.

Make sure that all staff are aware of the complaints procedure. Tell them how to recognise and deal with complaints.

- *Local politicians*

Local politicians will need to approve the complaints policy, and may want to get involved in setting time limits for acknowledgement of complaints and for settling the complaints. They may get involved with the detail of setting the procedures to be followed.



They will expect to see the level and nature of complaints monitored, and the results reported to them regularly. At the time of setting up the complaints policy, you need to set up a monitoring system which will deal with members' requirements.

The politicians will also want information about the action taken/changes made as the result of complaints made. This could be included in the duties of a complaints co-ordinator.

The politicians may decide to set up a panel for dissatisfied complainants - this is an option for dealing with customers who are not happy with the results of an investigation. This approach helps to keep them informed about the possible problem areas within the organisation.

- *Forms of redress/compensation*

Having admitted a mistake has been made, it may be appropriate to offer compensation. This should restore the "status quo" i.e. put the customer back into the position he would have been in if the problem had not occurred.

This may simply be an apology, an explanation and corrective action taken. Be prepared to say you're sorry! An explanation may help the customer to understand; even to help him avoid a similar situation arising by telling him how he can help. Correction of the error may be enough to restore the situation.

There may be a need for financial settlement e.g. a compensation payment. If so, budget provision is needed, and must be thought about at the time of setting up the complaints policy. Decide who has the authority to make a payment, and how any such payment is to be calculated.

Make sure clear guidelines are given, and that there is consistency over the whole organisation.

### 17.13 Professional Ethics

Tax administration present challenging situations in which ethical guidance is needed. Questionable or unethical conduct compromises the integrity of property tax administration. Professional institutes, which have members involved in the administration of property taxes, have codes of conduct and ethics with which the membership must comply. The staff of the tax administration should comply with standards such as these.

### 17.14 Principles of Public Life

Certain principles should apply to persons employed in the public sector:-

#### **Selflessness**



Public officials should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.

### **Integrity**

Public officials should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

### **Objectivity**

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, Public officials should make choices on merit.

### **Accountability**

Public officials are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

### **Openness**

Public officials should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

### **Honesty**

Public officials have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

### **Leadership**

Public officials should promote and support these principles by leadership and example.

## **17.15 Professional Code of Ethics**

- Public officials shall conduct themselves with diligence, integrity and honesty and in such a manner as to promote the good professional standing of their Municipality.
- In their professional activities, Public officials should show themselves to be aware of the public interest.
- Public officials shall neither take any action which may conflict with the legitimate interests of their employers, or which would weaken public confidence in the conduct of their employers' business, nor refrain from taking action where a similar result would ensue.

- In making or advising on commercial decisions, Public officials shall act and be seen to be acting from proper professional motives, uninfluenced by any prospect of advantage to themselves, their families and associates. Particular care should be exercised when accepting hospitality, to ensure that no possible conflicts of interest are seen to arise.
- Public officials shall not misuse or disclose confidential information acquired in the course of their employment or other professional activities for the gain of themselves, their families or associates. Confidential information should only be disclosed on a wider basis where this is legally required..
- Public officials shall ensure that they keep fully up-to-date with the knowledge, skills and competences required to carry out their professional work to the highest standards.
- Public officials shall comply with the professional conduct rules as determined by their Municipality or of any other professional bodies to which they belong.

## **Section Eighteen**

### ***18.0 Update and Review of the Manual***

#### **18.1 Responsibility for updating the manual**

The Urban Institute has responsibility for the update of the manual, making all necessary changes to each copy of the manual and maintaining the distribution list.

The manual will require updating when:

- new policy is introduced,
- new legislation is enacted,
- changes are made to existing statute, or
- case law requires that the authority changes the way that a given circumstance is handled.

When changes need to be made to the manual, all affected pages will be withdrawn and new pages made in substitution. Old pages must be removed from the master copy of the manual, a line drawn through them and filed at the back of the manual or on a separate file. In this way a audit trail of procedures that were in place at any point of time could be re-established if required. Old pages from other copies of the manual must be destroyed.

## LIST OF EFFECTIVE PAGES

Dates of Issue for Original and Changed Pages

Change No.	Page No.	Change No.	Page No.	Change No.	Page No.

## LIST OF INCORPORATED CHANGES

[illegible]

## **Appendix One**

### **THE MINISTRY OF FINANCE**

#### **THE LAW ON COMMUNAL TAXES AND FEES (cleared text)**

**Podgorica, January 1999**

## **THE LAW ON COMMUNAL TAXES AND FEES**

### General Regulations

#### Article 1

With this law the tourist tax has been introduced as the communal tax and the elements of the local communal tax system have been arranged as well as the fees for the usage of the communal services of general interest.

#### Article 2

Local communal taxes may be introduced for realizing rights, usage of the property and services.

A fee from the article 1 of this Law may be introduced for the usage of the communal property of general interest.

### II. tourist tax

#### Article 3

An individual responsible for paying the tourist tax is the citizen in the tourist accommodation facilities away from his/her place of residence.

As the tourist facility within the scope of this Law we consider: hotel, motel, pension, tourist settlement, camp, resort, natural SPAs, private accommodation, or any other facility providing the accommodation for the tourist and travelers.

#### Article 4

The tourist tax is paid for every day of stay in the tourist facility if it is not for longer than 30 days.

#### Article 5

From the tourist tax are exempt:

- children up to the age of 7;

- the individuals with the substantial sensory and physical difficulties (the blind, deaf, dystrophic etc );

- the individuals sent to SPA and the climate healing treatments, or special rehabilitation by the responsible medical commission ;

- The participants of the school excursions, or the pupils and students whose stay has been organized by the school, higher education institution and the faculty as the part of the regular program, of the sport and cultural events;

- Foreign citizens that are exempt from the taxes according to the international conventions and agreements;

- Foreign citizens that come in an organized way to Montenegro through the official humanitarian organizations in order to provide the humanitarian assistance;

- The individuals from the point one of this article do not pay the tourist tax if they provide a proof of satisfying conditions stated under that point (a membership card, the school certificate, medical certificate, etc)

- The individuals aged 7 to 15 pay the tourist tax discounted for 50%.

#### Article 6

The value of the tourist tax is stated by the Tax rate for the tourist tax that is the component part of this Law.

#### Article 7

The legal body providing the accommodation services (in the following text referred to as: the accommodation provider) is responsible for charging the tourist tax.

The accommodation provider charges the tourist tax concurrently with charging for the services.

The accommodation provider is responsible for keeping the book of the accommodation services customers that has to be certified by the responsible tax institution.

The style and the content of the book from the point 3 of this article have been stated by the responsible tax institution.

The accommodation provider is responsible to give a report to the authorized tax institution on the number of customers of the accommodation services classified according to the rate from the article 6 of this Law.

The report from the point 5 of this article is to be given within the five days after the end of the 15 days period in a month, and at the end of month.

#### Article 8

If the accommodation provider does not charge the tourist tax he/she is responsible to pay the amount of the non charged tourist tax from his/her own resources.

#### Article 9

The accommodation provider is responsible to include the amount of the tourist tax in the accommodation services bill, and in the case from the article 5 of this Law to state the basis on which someone has been exempt from paying the tourist tax.

#### Article 10

The amount of the charged tourist tax the accommodation provider pays within the five days after the end of the ten days period in a month, and at the end of month.

#### Article 11

The amount of the tourist tax up to 30% belongs to the Republic and it is used for financing tourist and information-advertising activities of the Republic.

The amount of the tourist tax up to 70% belongs to the Municipality and it is used for the information-advertising and cultural activities, improvement of the quality of the Municipality's tourist offer and financing of tourist organizations based on a program set by the Municipality Assembly.

### III. LOCAL COMMUNAL TAXES

#### Article 12

Local communal tax ratepayer is the customer of the rights, property and services for which usage the payment of the local communal tax has been introduced.

#### Article 13

The tax payment obligation from the article 12 of this Law starts on the day of using the rights, property or the services for which the payment of the local communal tax has been introduced.

#### Article 14

Local communal taxes may be introduced for:

- usage of a space within the public area or in front of the business facilities for the business related purpose, except for selling the printed material, books and other publications;

- holding lottery and entertainment games equipment (billiard, bingo etc.);



- hosting the musical events within the tourist facilities;
- posting the adds in the business facilities, except for posting the title of the State Institutions and other institutions and organizations that are responsible for the State management (management organizations, the public institutions etc.) and the institutions of the local self management;
- usage of the glass showcase for presenting the goods outside of the business facilities;
- usage of the advertising posters;
  
- usage of space for parking the motor vehicles and the additional vehicles on the arranged and marked area that are assigned for that purpose by the Municipality Assembly;
- usage of the empty areas for camping, putting a tent or other ways of temporary usage;
- keeping and usage of the sailing facilities and equipment on the water;
- keeping and usage of boats and floats on the water, except the boats that are used by the State and the local self management institutions as well as organizations that are responsible for maintaining and marking the sailing pathway;
- having the restaurants and other customer services and entertainment facilities on the water;
- usage of the Seaside for business related purposes;
- having motor vehicles and additional vehicles, except agricultural vehicles and machines, and
- having domestic animals.

Local communal taxes are not introduced for the usage of rights, property, and services from the statement 1 of this article in the Yugoslav Army and the Ministry of Internal Affairs, when they serve for their regular activities.

#### Article 15

As a firm under this Law it is considered even every posted title or name that refers to the fact that a legal or regular individual is performing the activity.

If on the same facility there are more posted firms of the same ratepayer a tax is paid only for one firm.

#### Article 16

The Municipality Assembly may state different value of the local communal tax on the parts of the territory, that is zones in which there are facilities, areas, and property or where the services for which the tax is paid from the article 14 of this Law are being performed.

#### Article 17

Local communal taxes from the article 14, points 4), 5), 9), 10), 11), 13) and 14) of this Law have been stated as the annual amount, local communal tax from the points 1), 2), 3), 6), 7), 8) and 12) have been stated according to the time span of using the rights, property or the services.

#### Article 18

With the Act on introducing the local communal tax the amount, concessions, dead lines and a way of payment of the local communal tax have been established.

When establishing the tax from the statement 1 of this article the Municipality is responsible to adjust its value at most to the value of the rate of increase of the average income in the Municipality, in accordance with the responsible Republic Institution for the Statistics.

#### IV. A FEE FOR USAGE OF THE COMMUNAL PROPERTY OF GENERAL INTEREST

##### Article 19

As the communal property of general interest in the scope of the article 1 of this Law it is considered: streets, squares, street lights, bus and railway stations, parks, green and recreational areas (public green areas, green areas by the whole set of apartments buildings, recreational areas, open beaches, arranged banks by rivers and lakes, protected greenery etc.).

##### Article 20

A fee for usage of the communal property of general interest is stated according to the basis that is a paid personal income; net income of the private activity, net income of the authorized rights, patents and technical improvements and cadastral income stated in accordance with the Law on Income Tax.

##### Article 21

The fee for usage of the communal property of general interest if the basis is the income that is taxed upon deduction, is paid by the person giving out the income on the expense of the business expenditures.

If the fee for usage for the communal property of general interest is stated by the responsible Tax Institution, the fee is paid by the individual from the realized income.

##### Article 22

The fee for usage of the communal property of general interest is paid according to the rate not greater then 2%.

In order to provide resources for financing building of the communal facilities, the fee from the statement 1 of this article may be raised up to 3% by the Municipality with the previous consent of the Republic Government.

##### Article 23

With the Act on introducing the fee for usage of the communal property of general interest the amount, concessions, dead lines and a way of payment of the local communal tax have been established.

#### V. SPECIAL REGULATIONS

##### Article 24

Concerning a way of stating the tourist tax, local communal tax and the fee for usage of the communal property of general interest, accounting, payment, dead lines, commission statements, delays and all the rest that is not stated by this Law and by the regulations derived from it, the Law on Income tax applies.

##### Article 25

The value of the tourist tax stated by the tax rate may be adjusted to prices in the small businesses, according to data published by the Republic Institute for Statistics.

The adjustments from the statement 1 of this article is done by the Government of the Republic of Montenegro.

#### VI. PUNITIVE REGULATIONS

##### Article 26

Payment of penalty that is 15 to 50 times the amount of the minimal net income in the Republic will be introduced for the offense of the legal body and the entrepreneur that provides the accommodation services if:

the accommodation tax in the amount greater then or less the prescribed one has not been charged for(article 6);

the tourist tax has not been charged concurrently with charging for the service (article 7 statement 1);

2a) the book of the customers for the accommodation services has not been kept properly or not kept at all (article 7 statement 3);

the report on number of customers for the accommodation services has not been submitted in the prescribed time to the responsible tax institution or the false data on the number of customers for the accommodation services classified according to the rate numbers has been submitted (article 7 stat. 4 and 5);

in the invoice there is no specific statement on the amount of the tourist tax or the basis for exemptions has not been stated (article 9);

the amount of the charged tourist tax has not been paid in the prescribed period (article 10);

For the offense of the point 1 of this article the responsible person, a legal entity will be penalized by paying two to ten times the minimal net wage in the Republic of Montenegro.

#### Article 26a

A person providing accommodation, a non legal entity will be penalized by paying two to ten times the minimal net wage in the Republic of Montenegro if:

the tourist tax has been charged in the amount greater then or less then the prescribed value (article 6);

the tourist tax has not been charged concurrently with charging for the services (article 7 point 2);

the book of the customers for the accommodation services has not been kept properly or not kept at all (article 7 statement 3);

the report on number of customers for the accommodation services has not been submitted in the prescribed time to the responsible tax institution or the false data have been submitted (article 7 points 5 and 6);

the amount of the charged tourist tax has not been paid in the prescribed period (article 10);

the book of the customers for the accommodation services has not been properly verified (article 7 point 4).

#### Article 27

A legal entity and entrepreneur will be penalized by paying fifteen to hundred times the minimal net wage in the Republic of Montenegro in case they do not settle and pay compensation for the usage of the communal goods of general interest ( article 20 and 21 point 1).

For the offence of the point 1 of this article the responsible person, a legal entity will be penalized by paying three to twenty times the minimal net wage in the Republic.

### VII. TRANSITIONAL AND FINAL REGULATIONS

#### Article 28

By the day of coming this Law into effect Law on the Communal Taxes seizes to be valid (Official Gazette Republic of Montenegro, No 15/78, 33/84 and 29/90 ).

The tax payment obligation that was due and had not been fulfilled till the day of coming this Law into effect would be regulated according to the statement 1 of this Article.

Article 29

This Law is coming into effect on the eight day from the day of its publishing in the "Official gazette of the Republic of Montenegro".

LAW REGULATION ON CHANGES AND AMENDMENTS OF THE LAW ON COMMUNAL TAXES AND COMPENSATIONS (OFFICIAL GAZETTE, No 30/93) WHICH IS NOT CONTAINED WITHIN THE CLEARED TEXT

Article 7

This Law is coming into effect the day after its publishing in the " Official gazette of the Republic of Montenegro".

LAW REGULATIONS ON CHANGES AND AMENDMENTS OF THE LAW ON COMMUNAL TAXES AND COMPENSATIONS (OFFICIAL GAZETTE, No 3/94) WHICH IS NOT CONTAINED WITHIN THE CLEARED TEXT

Article 3

The tax payment obligation for the tourist tax, which is an integral part of the Law on Communal Taxes and Compensations (Official gazette of the Republic of Montenegro, No 38/92 and 30/92) and Regulation dealing with setting the amount of the tourist tax ("Official gazette of the Republic of Montenegro" No 54/93) stops to be valid by the day of coming this Law into effect.

Article 4

This Law is coming into effect the day after its publishing in the " Official gazette of the Republic of Montenegro".

LAW REGULATION ON CHANGES AND AMENDMENTS OF THE LAW ON COMMUNAL TAXES AND COMPENSATIONS (OFFICIAL GAZETTE, No 27/94) WHICH IS NOT CONTAINED WITHIN THE CLEARED TEXT

Article 9

This Law is coming into effect on the eight day from the day of its publishing in the " Official gazette of the Republic of Montenegro".

LAW REGULATION ON CHANGES AND AMENDMENTS OF THE LAW ON COMMUNAL TAXES AND COMPENSATIONS (OFFICIAL GAZETTE, No 45/98) WHICH IS NOT CONTAINED WITHIN THE CLEARED TEXT

Article 11

This Law is coming into effect the eight day from the day of its publishing in the " Official gazette of the Republic of Montenegro", and will be applied since January 1<sup>st</sup> 1999.

TAX RATE OF A TOURIST TAX

It is payable in dinners

Rate number 1

For the stay in tourist facilities in: Herceg Novi, Tivat, Budva, Bar, Ulcinj, Cetinje, Kolasin, Zabljak and Podgorica.

8

Rate number 2

For the stay in tourist facilities in:

Berane, Plav and Rozaje

6

Rate number 3

For the stay in tourist facilities in other places which are not included in rate number 1 and number 2.

## **Appendix 2**

### ***LAW ON STATE SURVEY, CADASTRE, AND REGISTRATION OF RIGHT TO REAL ESTATE***

#### **CHAPTER I**

##### **GENERAL PROVISIONS**

##### **Contents of the law**

###### **Article 1**

Real estate survey (hereinafter referred to as: survey), preparation, maintenance, and revision of the real estate cadastre, as well as registration of rights to real estate, shall be exercised in a manner and according to the procedure promulgated by this law and regulations enacted pursuant to this law.

##### **Real estate**

###### **Article 2**

Real estates, in the spirit of this law, are land, buildings, apartments as separate parts of buildings, family residences, recovery and vacation buildings, business premises, economic buildings, and other structures (hereinafter referred to as: the real estate).

##### **Real estate cadastre**

###### **Article 3**

The real estate cadastre is a basic inventory where specified data on real estate are kept and used for economic, scientific, administrative, legal, statistical, and taxation purposes, for proving the right to real estate, for preparing space and urban plans and technical documentation, for information system, as well as for other needs of government bodies, economy, and citizens.

##### **Preparation**

###### **Article 4**

The real estate cadastre shall be prepared on the basis of executed survey and established actual rights to real estate.

##### **Principle of publicity**

###### **Article 5**

The real estate cadastre shall be a public book.

Examination of the real estate cadastre data shall be free.

## **Principle of registration**

### Article 6

The rights to real estate shall be acquired, transferred, limited, and abolished by means of registration in the real estate cadastre, if not differently specified by law.

## **Competence**

### Article 7

A competent government body shall carry out the activities of survey, preparation, and revision, as well as maintenance, of the real estate cadastre and registration of rights to real estate.

## **Notice**

### Article 8

Owners and utilization right holders shall be obliged to inform the administration body, which keeps the real estate register, about all changes related to the real estate that have an effect on registered status in the real estate register.

Courts and other bodies, which decide about change of right to real estate, shall be obliged to deliver their decisions, after coming into effect, to the competent administration body for the purpose of registering the change in the real estate cadastre.

## **Obligatory character of data**

### Article 9

Public documents, by which courts and other bodies resolve issues about rights to real estate, must have signs and data on real estate as they are marked in the real estate register.

Organization and maintenance of all official real estate records must be based on survey and real estate cadastre data.

## **Programs**

### Article 10

Activities in relation to the survey and real estate cadastre shall be executed on the basis of long-term programs, middle-term programs, and annual plans.

Long-term programs and middle-term programs from subsection 1 of this Article shall be enacted by the Government of the Republic of Montenegro (hereinafter referred to as: the Government), and annual plans by an administration body.

## **CHAPTER II**

### **TECHNICAL DOCUMENTATION FOR THE EXECUTION OF GEODETIC WORKS**

### Article 11

Technical documentation for carrying out geodetic works shall include a final design and as-done drawings.

Execution of geodetic works, for which this law does not establish a duty of preparing the technical documentation, shall be carried out pursuant to work order that includes basic location description and type of works.

## **Final design**

### Article 12

The final design must be prepared for:

- 1) Basic geodetic works;
- 2) Geodetic and technical works when improving land plots;
- 3) Preparation of basic state map and topographic maps;
- 4) Geodetic and cadastre information system;
- 5) Geodetic metrology and standards.

The final design may also be prepared for other types of geodetic works, when an investor identifies the necessity of its preparation, and that final design shall be prepared on the basis of the design task defined by the investor.

## **As-done drawings**

### Article 13

As- done drawings shall be prepared on the basis of the final design, with changes that took place while carrying out the works included, and serve for further use of geodetic works' results.

In the case there have not been any deviations from the final design while carrying out the works, the fact that as-done status equals the designed one shall be noted in the final design.

## **Preparation of technical documentation**

### Article 14

An administration body, authorized for activities in relation to survey and real estate cadastre, shall prepare technical documentation from Article 11 of this law.

## **Specialized institution**

### Article 15

The final design preparation may be assigned to a specialized institution authorized to prepare technical documentation that within its team includes at least two liable designers of geodetic profession.

A liable designer, in the spirit of subsection 1 of this Article, may be a person with a university diploma in geodesy and three years of work experience within his/her profession.

## **Technical control**

### Article 16

The final design shall be the subject of the technical control.

A person appointed by the investor shall carry out the technical control of the final design and it cannot be carried out by the institution that prepared the design.

The investor shall bear the expenses of the technical control.

## **Control authorization**

### Article 17

Only a person who satisfies requirements, defined by law, for technical documentation preparation may take part in carrying out the technical control of the final design.

A person employed with the company, i.e. some other institution that prepared the technical documentation or took part in its preparation, a person employed with the investor, and a



person that performs supervision over implementation of these provisions cannot take part in carrying out the technical control.

## CHAPTER III

### SURVEY

#### **Survey**

##### Article 18

Data on real estates and their users shall be collected by survey.

##### Article 19

#### **Survey contents**

A survey shall include:

- 1) Placing and determining network of permanent geodetic stations;
- 2) Detailed site survey;
- 3) Preparation and reproduction of drawings and maps.

#### Data processing

##### Article 20

The processing of data obtained through survey shall be performed in Gauss-Kruger projection of meridian strips. Width of each strip amounts three degrees longitude. Each strip makes a separate system of coordinates.

#### *Placing and determining network of permanent geodetic stations*

##### Networks

##### Article 21

Network of permanent geodetic stations makes a unique survey basis.

The network of permanent geodetic marks shall be divided into basic and additional network.

The basic network shall consist of astronomic-geodetic, gravimetric, trigonometric, and elevation network of permanent geodetic stations.

The additional network shall consist of permanent geodetic stations placed and determined for the purpose of immediate detailed site survey.

#### **Placing and determining networks**

##### Article 22

Placing and determining networks of permanent geodetic stations shall be performed in a way and in line with methods established in Article 65 of this law.

#### **Keeping**

##### Article 23

Removal, devastation, ruination, and shoveling of survey beacons and marks shall be forbidden.

The administration body authorized for activities in relation to survey and real estate cadastre shall be obliged to care for the condition of survey beacons and marks on the municipal territory.

A user of the land where survey beacons and marks are located shall be obliged to inform, within 30 days, the administration body authorized for activities in relation to survey and real estate cadastre about any removal, devastation, or ruination of those beacons and marks.

## **Notices**

### Article 24

If construction works or some other works take place on a land, or nearby, with survey beacons and marks used for indicating geodetic stations, which might damage the beacons or reduce possibility of their utilization, the contractor shall be obliged to inform the administration body authorized for activities in relation to survey and real estate cadastre at least 15 days before the works start.

If, for the purpose of carrying out works from subsection 1 of this Article, the existing beacon should be relocated, or if due to initiated works possibility of its utilization is reduced, the contractor shall bear expenses of its relocation and new determination.

## **Access permit**

### Article 25

Real estate users shall be obliged to permit access to land and structures to individuals who execute survey activities, as well as place beacons and marks used to indicate survey stations, and perform other activities from their competence.

## **Damage recompense**

### Article 26

The body or company that carried out survey and other activities in relation to the survey shall be obliged to pay for the damage made to real estate users while carrying out those works.

#### *1. Detailed site survey*

## **Detailed site survey**

### Article 27

The following data shall be collected by detailed site survey (hereinafter referred to as: site survey) for the purpose of presenting the site in a horizontal and vertical mode: measuring and descriptive data on location, extent and method of using cadastral lots of land and structures built on them, data on buildings, specific parts of buildings, on natural and artificial site structures, as well as on land contour, geographic and other names.

Data on real estate users included by site survey shall also be collected while executing the site survey.

## CHAPTER IV

## REAL ESTATE CADASTRE

## **Real estate cadastre**

### Article 33

The real estate cadastre shall have data on cadastral lots, buildings, apartments as separate parts of buildings, family residences, recovery and vacation buildings, business premises, economic buildings, and other structures, on their location, outward appearance, surface, way of use, quality, cadastral class, cadastral revenue, real estate users, actual and other rights to real estate, as well as on particular legal real estate status (construction works taking place without adequate approvals and permits or by violating them, etc.)

Data from subsection 1 of this Article shall be established, processed, and registered in the real estate cadastre in relation to a cadastral lot.

### **Contents**

#### **Article 34**

The real estate cadastre shall consist of:

- 1) Working original of a plat;
- 2) Cadastral records;
- 3) Collected documents.

#### **Cadastral lot**

#### **Article 35**

Cadastral lot is a piece of land used in the same manner.

Each cadastral lot shall be marked with a number and title of a cadastral municipality it belongs to.

The location and form of each cadastral lot shall be displayed in plans, and other data shall be registered in the cadastral records.

### **Organizing real estate cadastre**

#### **Article 36**

To create a real estate cadastre, beside data from Article 27 of this law, shall also include:

- 1) Designation of a cadastral territorial unit;
- 2) Cadastral sorting and valuation of land;
- 3) Display of data on survey and cadastral sorting of land for public inspection and identification of users and other actual rights to real estate;
- 4) Preparation of cadastral records; and
- 5) Formation of documents compilation;

#### **1. Designation of cadastral territorial units**

##### *Territorial units*

#### **Article 37**

Cadastral territorial units shall be a cadastral municipality and a cadastral district.

### **Cadastral municipality**

#### **Article 38**

A cadastral municipality shall include, by rule, surface of a single settlement.

The body authorized for activities in relation to survey and real estate cadastre shall make the decision on the territory and cadastral municipality's title, previously having acquired estimation of local self-government bodies.

Changes of cadastral municipalities' borders, with survey completed and cadastral records prepared, may be performed by the authorized body, previously having acquired estimation of local self-government bodies.

#### **Cadastral municipalities' borders**

#### **Article 39**

A special commission, established by the head of the body authorized for activities in relation to survey and real estate cadastre, shall define borders of cadastral municipalities.

The process of defining and marking borders shall be carried out by setting beacons and marks onto land and by describing borders in a mark out record.

When cadastral municipalities' borders match territorial border of a local self-government unit, the commission members must be representatives of bodies of the local self-government unit whose borders are being defined.

A record shall be kept on the commission's work.

### **Disputes**

#### **Article 40**

Disputes on cadastral municipalities' borders, which are at the same time territorial borders of a local self-government unit, shall be resolved by the Parliament of Montenegro, at proposal by the body authorized for survey activities.

## **2. Cadastral sorting and valuation of land**

### **Sorting**

#### **Article 41**

Cadastral land sorting (hereinafter referred to as: land sorting) shall be carried out in relation to natural and economic conditions for the existing cadastral land crop production.

### **Valuation**

#### **Article 42**

Land valuation shall establish land fertility on the basis of its natural characteristics, regardless of the existing way of using that land (cadastral crop).

### **Types of land**

#### **Article 43**

When carrying out cadastral sorting and valuation of land, all pieces of land shall be classified into the following categories:

- 1) Fertile land;
- 2) Barren land;
- 3) Land for special purposes.

#### **Cadastral district**

#### **Article 44**

Territorial unit for land valuation shall be the territory of the Republic.

Territorial unit for cadastral land sorting shall be a cadastral district.

The territory of a cadastral district shall consist of territorially linked cadastral municipalities that have similar natural and economic conditions for agricultural production.

The Government shall establish cadastral districts, at proposal submitted by the administration body authorized for activities in relation to survey and real estate cadastre.

Borders of a cadastral district may be changed only in a way and procedure given in subsection 4 of this Article.

### **Sorting standards**

#### **Article 45**

Cadastral sorting of land shall be executed in compliance with established sorting standards.

The standard for land sorting shall be the quality land within cadastral district borders (hereinafter referred to as: district quality land) for each class of existing land crops, as well as class frameworks for each land crop, for the territory of each cadastral municipality. The administration body authorized for activities in relation to survey and real estate cadastre shall establish the standard for land sorting.

#### **Quality land**

##### **Article 46**

Quality land shall be established for each existing crop and class in a cadastral municipality (hereinafter referred to as: municipal quality land), on the basis and within established standard for cadastral sorting of land and in accordance with established district quality land for specific district territory.

District quality land shall be at the same time municipal quality land in a cadastral municipality it is located in.

#### **Authorized body**

##### **Article 47**

The administration body authorized for activities in relation to survey and real estate cadastre shall establish municipal quality land and carry out the cadastral sorting in a cadastral municipality.

#### **Notification**

##### **Article 48**

Data on established cadastral land classes shall be communicated to users through the procedure of survey data display for public inspection.

#### **Valuation classes**

##### **Article 49**

By means of valuation, all land appropriate for agricultural production and forestry shall be classified into eight valuation classes, and within each valuation class one or more valuation subclasses may be established.

#### **Standards and criteria**

##### **Article 50**

The standard for valuation and criteria for classifying land into valuation classes and subclasses shall be established by a Republican body authorized for activities in relation to survey and real estate cadastre.

### ***3. Display of data on survey and cadastral sorting of land for public inspection and definition of actual rights to real estate***

#### **Display**

##### **Article 51**

Data on real estate, established by means of survey and cadastral sorting of land, shall be displayed for public inspection to owners, users, and interested parties from the territory of a municipality display is being organized for (hereinafter referred to as: display).

Users' rights to real estate shall be established in the display procedure.

Display activities shall be carried out by the administration body authorized for activities in relation to survey and real estate cadastre in a municipality whose territory the real estate is located on (hereinafter referred to as: first instance body).

### **Advertisement**

#### **Article 52**

Time and place of displaying data for public inspection shall be defined by the administration body authorized for activities in relation to survey and real estate cadastre, by means of publishing an advertisement in a municipality where the display is taking place, through media advertising, or in some other common way, at least 30 days before the display occurs.

### **Advertisement contents**

#### **Article 53**

An advertisement about display of survey to public inspection shall have:

- 1) Municipality's and cadastral municipality's titles;
- 2) Deadline within which the display is to be executed;
- 3) Place and premises where the display is to take place;
- 4) Hours of display.

### **Invitation**

#### **Article 54**

The first instance body shall be obliged to invite real estate users to display location and to communicate each one of them data on real estate, and simultaneously check and establish rights to real estate listed in Article 51, subsection 2, of this Law.

### **Display procedure**

#### **Article 55**

Display procedure shall be executed in compliance with provisions of the Law on general administrative procedure, if not differently defined by this law.

### **Objection**

#### **Article 56**

Real estate users may make an objection regarding survey data, within three days from the day the data have been communicated to them.

### **Objection consideration**

#### **Article 57**

The first instance body shall be obliged to consider the objection on survey data within eight days, and if the body learns it is justified, it shall perform adequate change of data, enact a decision about it and inform the person that made the objection.

When the objection is not accepted, the body shall enact a decision on negative response and delivers it to the person that made the objection.

### **A decision**

#### **Article 58**

A decision shall have:

- 1) Data on real estate;
- 2) Identification of actual rights to real estate and holder of those rights;

- 3) Limitations in relation to disposal of the real estate;
- 4) An order for registration of data on real estate and holder of actual rights to real estate in real estate cadastre.

A list with data on real estate and actual rights to real estate shall be an integral part of a decision.

### **Complaint**

#### **Article 59**

A complaint against the decision from Article 58 of this law may be lodged to the head of the administration body authorized for activities in relation to survey and real estate cadastre, within 15 days from the day delivering the decision.

A complaint shall be submitted by means of the display commission.

The second instance body shall be obliged to make a decision in relation to the complaint before real estate cadastre comes into effect.

## **4. Preparation of cadastral records**

### **Preparation of cadastral records**

#### **Article 60**

Cadastral records shall be prepared, for each cadastral municipality individually, on the basis of established survey data and cadastral sorting of land, as well as actual rights to real estate.

### **Cadastral records' contents**

#### **Article 61**

Cadastral records shall have:

- 1) Cadastral plats;
- 2) Real estate paper (a document which includes four separate parts) with data, such as:
  - Data on cadastral lot, marked as paper A;
  - Data owner and holders of rights to use, marked as paper B;
  - Data on buildings and specific parts of buildings from Article 35 of this law, marked as paper C; and
  - Data on burden, limitations, and specific legal statuses of real estate (building without adequate approvals and permissions or their violation, etc), marked as paper D.
- 3) List of cadastral lots;
- 4) Summary of surfaces and cadastral revenues per crops and classes;
- 5) List of cadastral revenues;
- 6) List of owners and utilization rights holders in alphabetical order.

### **Confirmation**

#### **Article 62**

When the administration body authorized for activities in relation to survey and real estate cadastre learns that the cadastral records have been prepared, it shall approve the records and deliver it to the administration body authorized for activities of maintenance to be used.

Copy of minutes about description of cadastral municipality borders, original data on detail survey and surface calculation, land details sketch and copy of coordinates, altitudes (spot levels), description of trigonometric and elevation networks' points location, and turning points shall be delivered along with the cadastral records.

The decision, that approves the cadastral register, shall establish the beginning of its application and it shall be published in the "Official Gazette of the Republic of Montenegro".

### **Data processing**

Article 63

Cadastral records shall be prepared and maintained by automatic data processing  
Automatic data processing output data shall be printed on forms promulgated by the  
administration body authorized for activities in relation to survey and real estate cadastre.

**4. Formation of documents collection  
Documents compilation**

Article 64

Documents compilation shall have originals and certified copies of documents used for  
preparing the real estate cadastre, i.e. for introducing a change in it.

Documents in documents compilation shall be grouped by years for each cadastral  
municipality and permanently kept.

**Sublegal regulations**

Article 65

The administration body authorized for activities in relation to survey and real estate cadastre  
shall enact more specific regulations about technical normative, methods and modes of  
operation applied in the process of preparing and maintaining survey and real estate cadastre,  
as well as types of forms for survey, real estate cadastre, and modes of keeping them.

CHAPTER 5

REGISTRATION OF RIGHT TO REAL ESTATE

**Registration principle**

Article 66

Rights of real estate shall be acquired, transferred, limited and terminated by registration in  
the real estate cadastre.

**Principle of publicity**

Article 67

Each individual may request to inspect data written in the real estate cadastre, to receive a  
real estate document or confirmation that a specific real estate or right is registered in the real  
estate register.

**Principle of confidence**

Article 68

Data on real estate and rights to real estate, registered in compliance with provisions of this  
law, shall be considered as accurate and no person shall endure consequences in real estate  
turnover and other relations where these data are used.

**Principle of legality**

Article 69

The body authorized for activities in relation to survey and real estate cadastre shall inspect,  
in the line of duty, whether registration conditions stipulated by law have been met.

**Principle of priority**

Article 70

The registration of rights into the real estate cadastre shall be performed according to  
chronological order of submitting requests for registration.



The legal effect of registration in relation to the third person shall begin from the moment of submitting the request for registration with the authorized body.

### **Rights registered in the cadastre**

#### **Article 71**

Actual rights and specific contractual rights shall be registered in the real estate cadastre.

Rights to real estate shall be registered in the line of duty and at request of the right holder.

### **Proprietary right**

#### **Article 72**

Proprietary right to land shall be registered on actual owner.

Utilization right holder, i.e. real estate user, shall be registered for state owned real estate, along with the right holder.

The utilization right of the previous land owner, i.e. utilization right of another person, shall be registered for city construction land, in compliance with law.

### **Co-ownership**

#### **Article 73**

Co-ownership right to real estate shall be registered in proportion to a share in co-ownership.

### **Common ownership**

#### **Article 74**

Common ownership right to real estate shall be registered under names of all common owners.

### **Tenant ownership**

#### **Article 75**

Tenant ownership right shall be registered under the name of a tenant owner of a specific part of a building (flat, business premises, garages, cellars), along with common ownership rights for common parts of a building and common parts of land the building is constructed on.

### **Other rights to real estate**

#### **Article 76**

Actual and personal official quality, mortgage, \_\_\_\_\_, lease for a period longer than five years, priority of purchase, buying-up and vending right, as well as all abalination limitations and prohibitions, and burdens shall be registered in paper G list of real estate.

Actual official qualities shall be registered as a right of privileged good owner, as well as burden on service good.

A mortgage shall be registered for a specified real estate with definition of main claim and interests amount.

### **Type of registration**

#### **Article 77**

Real estate cadastre registrations shall be:

- 1) Booking;
- 2) Advanced registration;
- 3) Post registration.

### **Registration basis**

#### **Article 81**

Registration of rights shall be carried out:

- 1) On the basis of law
- 2) On the basis of authorized body's final decision;
- 3) On the basis of legally binding court decision;
- 4) On the basis of a document about legal activity, written in compliance with law.

### **Body's competence**

#### Article

Registration of right to real estate shall be performed by the authorized body in a municipality whose territory the real estate is located on.

## **CHAPTER VI**

### **MAINTENANCE OF SURVEY, REAL ESTATE CADASTRE, AND CENTRAL STATE MAP**

#### Maintenance

##### Article 86

Maintenance of survey, real estate cadastre, and central stet map includes:

- 1) Recovery of beacons for permanent survey points that serve for survey maintenance;
- 2) Observation and definition of changes made on real estate that influence survey and real estate cadastre;
- 3) Incorporation of established changes in project report of survey, designs, central state map, cadastral records;
- 4) Registration of right to real estate changes;
- 5) Observation, definition, and incorporation of occupancy units' changes that is performed by the authorized body.

Method and procedure of maintaining permanent geodetic points, survey, real estate cadastre, and central state map shall be promulgated by the head of the body authorized for activities in relation to survey and real estate cadastre.

### **Changes**

#### Article 87

Definition, elaboration, and incorporation of changes shall be executed with the same precision, methods, and procedures prescribed for execution of basic geodetic works, survey, and preparation of real estate cadastre and central state map.

### **Elimination of disadvantages**

#### Article 88

While maintaining the survey, real estate cadastre, and central state maps, the authorized body shall eliminate all disadvantages and mistakes regarding design and completion of works, and enact a decision about it.

### **Reporting about changes**

#### Article 89

Real estate user shall be obliged to give an account to the authorized body about changes made to real estate, no later than \_\_\_\_\_ days from the day when the change is made.

Along with report from subsection 1 of this Article, the user shall be obliged to submit a document that serves as a basis for registration.

The authorized body shall take into procedure, in the line of duty, changes from subsection 1 of this Article that it learned about in some other way.

Users shall bear expenses of defining changes from subsection 1 of this Article.

### **Data delivery**

#### Article 90

When activities of construction or reconstruction of buildings, flats and business premises as separate parts of buildings, and other structures take place, which has an effect on data in cadastral records and plats, the investor shall be obliged, upon completing the construction or reconstruction, along with report from Article 89 subsection 1 of this law, also deliver to the municipal authorized body survey data that can be used for incorporating changes into plats and cadastral records.

Certificate of occupation for structures from subsection 1 of this Article cannot be issued before the investor submits a confirmation from the authorized body that it received survey data, i.e. confirmation that the authorized body has carried out the survey of changes consistent with submitted report.

### **Pegging out the property**

#### **Article 91**

A user of the real estate where changes occurred, which requires new geodetic survey for the purpose of incorporating those changes in plats and cadastral records, shall be obliged to peg out land boundaries with visible and permanent beacons at his/her own expense.

If a real estate user does not comply with the rule defined in subsection 1 of this Article, he/she shall bear all expenses caused by subsequent survey.

### **Deadlines for changes**

#### **Article 92**

The authorized body shall be obliged to carry out the survey or conduct an assessment as a result of a report about changes made on real estate within 15 days, and exceptionally, in the case of force majeure, 15 days after the reason for delay ceases to be valid.

When carrying out works, from subsection 1 of this Article, that resulted from a report, the authorized body shall carry out immediately in the field or sublet the execution of necessary geodetic survey and assessment in relation to changes not listed in the report, if it noticed them in the field.

The authorized body shall be obliged to invite the user who requested the assessment to be present when the assessment takes place.

### **Decision on changes in the register**

#### **Article 93**

The authorized municipal body shall enact the decision on allowing the registration of changes made on a real estate in the cadastral records, when it learns that conditions stipulated by law for such cases have been met.

### **Complaint**

#### **Article 94**

A complaint may be stated against the decision that, in the process of maintaining the survey and real estate register, allows registration of a change in the cadastral records, as well as against the decision that rejects registration of a change, within 15 days from the day of receiving the decision.

### **Legal validity**

#### **Article 95**

Registration of changes on real estate shall be carried out when the decision on allowing the registration becomes legally valid.

## **CHAPTER VII**

### **PREPARATION OF CENTRAL STATE MAP**

#### **Central state map**

Article 96

Central state map shall be prepared in an analogue and digital form by processing the geodetic plan or on the basis of data acquired through a detailed survey.

The contents, form, and scale of the central state map, topographic and overall topographic maps shall be prescribed by the head of the body authorized for activities in relation to survey and real estate cadastre.

CHAPTER VIII

ACTIVITIES OF SPECIAL INTEREST IN THE FIELD OF GEODESY

**1. *Geodetic works in engineering and technical fields of activities***

**Works in engineering and technical fields of activities**

Article 97

Geodetic works in engineering and technical fields of activities are: preparation of topographic plans for the purposes of space and urban planning and designing, field realization of data from urban plans and investment-technical documentation, design preparation and completing geodetic works in engineering and technical fields of activities, preparation and field realization of acquisition projects, preparation and realization of projects concerning redistribution of fields.

Data acquired through completion of geodetic works in engineering and technical fields of activities, which cause changes in the real estate cadastre, shall be used for the purpose of survey and real estate cadastre maintenance, i.e. renovation.

**2. *Geodetic-cadastral information system***

Information system

Article 98

Geodetic-cadastral information system is the information system of government agencies that provides unique geodetic data records, access to data for authorized users regardless of their location, exchange of data and information among the subjects of government agencies' information system (ISDO) and high quality of data and information.

**4. *Execution of geodetic works***

**Execution of works**

Article 101

The authorized body may sublet expert works of recovering beacons and survey of permanent geodetic points that serve for survey maintenance, as well as observation and definition of changes made on real estate that influence survey and real estate cadastre data (renovation of cadastral lots' borders, identification of cadastral lots, partition of cadastral lots, survey of built structures, etc) to a company, i.e. an entrepreneur, registered for executing these works, under conditions stipulated by this law.

**Conditions for executing works**

Article 102

Geodetic works, which according to this law require preparation of the final design, may be executed by companies, i.e. entrepreneurs, that are registered in the adequate register for execution of those works and employ at least five surveyors for indefinite time, with passed official exam for people employed in government administration agencies, of whom at least

one must have a university degree and one college diploma, as well as own adequate survey instruments and tools.

Head of the authorized body shall enact a decision on compliance, i.e. termination of conditions from subsection 1 of this Article.

A special register about issued decision shall be kept within the authorized body.

### **A Decision on execution of the works**

#### **Article 103**

Design preparation and works from Article 97 of this law in engineering and technical fields of activity may be executed by:

- 1) Companies, i.e. entrepreneurs from Article 104 of this law;
- 2) A company, i.e. an entrepreneur within own sphere of activity, as well as local government bodies for own needs, if employ at least one surveyor with university degree, passed official exam for those employed in government administration agencies, and if they have adequate survey instruments and tools.

Head of the authorized body shall enact a decision on compliance, i.e. termination of conditions from subsection 1, item 1 and 2, of this Article.

A special register about issued decision shall be kept.

### **Authorized person**

#### **Article 104**

The contractor from Article 102 of this law shall appoint a person to administer the works.

Execution of works from Article 102 of this law may be administered by a person with a university degree in geodesy, passed official exam for those employed in government administration agencies, at least three years of working experience and authorization for administration of works which is acquired by passing a special exam in front of the commission established by head of the authorized body.

### **Contractor's duties**

#### **Article 105**

A contractor shall be obliged to:

- 1) Execute works in accordance with technical documentation and regulations, standards, technical normative, and quality standards applicable for specific types of works;
- 2) Keep works diary;
- 3) Warn in written form the authorized body and a person who performs professional supervision over execution of works about identified deficiencies in technical documentation, about occurrence of unexpected circumstances that influence the execution of works and application of technical documentation.

### **Supervision**

#### **Article 106**

The investor shall provide for professional supervision when execution of works takes place.

Professional supervision may be performed by a person who meets the terms stipulated by this law for administering that type of works.

## **5. Subletting of works**

### **Subletting of works**

Article 107

Preparation of technical documentation and execution of works shall be sublet by public competition or tendering or immediate indenture.

The investor shall make decision about the method of subletting preparation of technical documentation and execution of works.

The advertisement about public competition shall provide terms for subletting preparation of technical documentation, i.e. execution of works, and the investor shall ensure equality for interested participants in the public competition.

Deadline for delivering a bid cannot be shorter than 15 days from the day of publicizing public competition.

A contract shall be concluded about subletting works, which shall especially list: type and scope of works that are being sublet, deadline for execution of works, and data about the person to administer the works.

The body authorized for activities in relation to survey and real estate cadastre shall promulgate terms, method, and procedure of subletting preparation of technical documentation and execution of works.

CHAPTER IX

KEEPING AND USING DATA OF BASIC GEODETIC WORKS, SURVEY AND REAL ESTATE CADASTRE

**Keeping**

Article 108

Data of basic geodetic works, survey, and real estate cadastre shall be kept in a special secured room of the authorized body.

Plans, geodetic research studies, and cadastral records, i.e. their databases cannot be taken out of authorized body's premises.

The Government shall promulgate methods of keeping and using data from subsection 1 of this Article.

**Public character of data**

Article 109

Examination of data from real estate cadastre shall be free, if not, for some data, differently arranged by law or some other regulation.

Examination of data shall be attended by a competent person from the authorized body.

**Certificate**

Article 110

The authorized body shall be obliged, at a request from a holder of rights, i.e. interested person, to issue a certificate or copies of facts written in real estate register.

**Reports**

Article 111

The authorized body shall be obliged to deliver a report to government agencies, and local government institutions and bodies, at their request, about data written in the real estate cadastre they need for carrying out procedures from their own competence.

**Recompense**

Article 112

Recompense shall be paid for using and examining survey and real estate cadastre data, as well as for services provided the body authorized for activities in relation to survey and real estate cadastre.

## Appendix 3

663.

By virtue of Article 88, subsection 2, of the Constitution of the Republic of Montenegro I enact a

### DECREE ON PROCLAMATION OF THE LAW ON REAL ESTATE TAX

The Law on Real Estate Tax, adopted by the Parliament of the Republic of Montenegro on December 27 at its second regular session in 2001, is hereby proclaimed.

Number: 01-3875/2  
Podgorica, December 28, 2001

President of the Republic of Montenegro

Milo Djukanovic, (personal signature)

### ***LAW ON REAL ESTATE TAX***

#### General provisions

##### Article 1

- (1) This law regulates basic elements of the real estate tax.
- (2) A local self-government unit introduces the real estate tax by own regulation.

##### Article 2

Revenues from real estate tax belong to the local self-government unit on whose territory the real estate is located.

#### **Subject to Taxation**

##### Article 3

- (1) The real estate in the territory of the Republic of Montenegro, which is not specifically exempted by this law, is subject to the real estate tax.
- (2) The real estate, from paragraph 1 of this Article, includes land, buildings, units of buildings, and other construction structures.
- (3) Buildings and other construction structures owned separately from land and separately owned units of buildings may be taxed separately.

#### **Taxpayers**

##### Article 4



- (1) The real estate taxpayer is any person (legal or physical) who owns the real estate on January 1 of the year the tax is determined for.
- (2) When the owner of real estate is unknown or it has not been determined, the user of the real estate is the real estate taxpayer.
- (3) If several persons have partial ownership or joint ownership on the same real estate, a real estate taxpayer is each of those persons in proportion to own share. Taxpayers are jointly and severally liable for the real estate tax.
- (4) In the case of use of building rights, the taxpayer for land (plot) is owner of that real estate, and owner of the structure is the taxpayer for the structure.

### **Tax Basis**

#### Article 5

- (1) The market value of the real estate is the real estate tax base.
- (2) Market value of the real estate is the value of the real estate on January 1 of the year tax is determined for.

### **Criteria for Determination of Real Estate Market Value**

#### Article 6

- (1) Basic criteria to determine real estate market value are:
  - 1) Purpose of real estate;
  - 2) Size of real estate;
  - 3) Location of real estate;
  - 4) Quality of real estate;
  - 5) Other elements that might have influence on real estate market value.
- (2) More precise criteria and methodology for determining the real estate market value are prescribed by the Government of the Republic of Montenegro on proposal by the Minister of finance.
- (3) The methodology from paragraph 2 of this Article is synchronized with market conditions, and at least once in three years.

### **Inception of Tax Liability**

#### Article 7

- (1) The real estate tax liability comes into force on January 1 of the year the tax is determined for.
- (2) The real estate market value from paragraph 1 of this Article is determined by the authorized taxation body of a local self-government unit.

#### Article 8

In the case of real estate being damaged as a result of Acts of God (droughts, floods, fires, earthquakes...) a local self-government unit may, independently or at a taxpayer's request, carry out a reassessment of the real estate market value from Article 7 of this law.

### **Tax Rates**

#### **Article 9**

- (1) The real estate tax rate is proportional.
- (2) The real estate tax rate can range from 0.08% to 0.80% of the real estate market value.
- (3) Local self-government units can determine the real estate tax rates according to types of real estate.
- (4) A local self-government unit can increase the tax rate for agricultural land which is not cultivated to 50% in relation to the tax rate for agricultural land which is cultivated.
- (5) More detailed regulations defining what land should be considered as cultivated agricultural land shall be prescribed by the Agriculture Minister.

### **Tax Exemptions**

#### **Article 10**

- (1) The real estate tax shall not be paid for the following:
  - 1) State-owned real estate used by state bodies, organizations and services, and local self-government bodies and organizations that discharge public service functions they were established for;
  - 2) Real Estate owned by the Central Bank;
  - 3) Real estate owned or occupied by accredited, diplomatic or consular offices if the real estate is used for such purposes and on condition of reciprocity;
  - 4) Real estate owned by international organizations if such is stipulated by a treaty;
  - 5) Real estate declared, in compliance with law, to be cultural monuments;
  - 6) Real estate owned by religious organizations that are used for religious services or as housing for their clergy;
  - 7) Real estate owned by NGOs used for functions they are established for;
  - 8) Public roads, streets, squares, and parks, ports, railroads, and airports, protected and protection forests, and national parks.
- (2) Exemptions from paragraph 1 of this Article come into force on condition that the real estate is not used for making profit.
- (3) The real estate tax shall not be paid in the case when total tax basis, for entire real estate belonging to a specific taxpayer, does not exceed 5.000 EURO and if the real estate is not used for making profit.

**Tax Relief**  
Article 11

- (1) The real estate tax for buildings and apartments that serve to a taxpayer as a main residence is reduced for 20% for the taxpayer and 10% for each family member of his household respectively, to the maximum of 50% of determined tax.

**Tax period**  
Article 12

The period for determining the real estate tax is the calendar year.

**Determining and Paying the Tax**  
Article 13

- (1) The real estate tax is determined by the decision of local self-government authorized body until May 31 of the current year.
- (2) The real estate tax is paid in two equal installments of which the first is due on June 30 and the second on November 30 of the year the tax is determined for.

**Tax Application**  
Article 14

- (1) Real estate owners are obliged, within 30 days from the day of acquiring the real estate, to submit a tax application to the authorized taxation body of a local self-government unit.
- (2) The tax authority prescribes the structure and contents of the tax application from paragraph 1 of this Article.

**Duties of Bodies Authorized for Real Estate**  
Article 15

The Republican body authorized for the real estate is obliged to deliver to a local self-government unit data on real estate ownership that are kept within that authority, until end of November of the year that precedes the year tax is determined for.

**Responsibilities of a local self-government unit**  
Article 16

- (1) A local self-government unit is in charge for the following:
  - 1) Determining the market value of real estate for taxation purposes;
  - 2) Establishing tax liability for taxpayers;
  - 3) Performs activities of control and collection of real estate tax;
  - 4) Keeping the real estate register;
  - 5) Harmonizing regularly the state of its real estate register with the real estate register kept by the Republican body in charge for real estate;
  - 6) Presenting data that refer to determining and collecting real estate tax to Finance Ministry when necessary, and at least once in a year.

- (2) Minister of Finance prescribes the structure and contents of the register from paragraph 1, item 6, of this Article.

### **Supervision**

#### **Article 17**

The supervision over the implementation of this law is performed by the Finance Ministry.

### **Adequate Implementation of Provisions**

#### **Article 18**

Provisions of the law defining tax procedure are accordingly implemented regarding the tax procedure and other issues not specifically regulated by this law (appeal procedure, enforcement, interests, guarantees...).

### **Regulations for Implementing the Law**

#### **Article 19**

Regulations for implementing this law shall be enacted within nine (9) months from the day this law enters into force at the latest.

### **Temporary Provisions**

#### **Article 20**

Taxation of real estate for 2002 shall be carried out in compliance with provisions of the Law on Property Tax ("Official Gazette of RoM", numbers 3/92, 30/93, 3/94, 42/94, 20/95, and 45/98) and regulations enacted on the basis of this law.

#### **Article 21**

Department for Real Estate and Department for Public Revenues are obliged to make all the data kept within those authorities available to a local self-government unit within six (6) months from the day this law comes into force.

#### **Article 22**

- (1) The property (real estate) taxpayers as defined by the Law on Property Tax ("Official Gazette of RoM", numbers 3/92, 30/93, 3/94, 42/94, 20/95, and 45/98) are obliged to submit a tax application to the authorized taxation body of a local self-government unit within nine (9) months from the day this law comes into force.
- (2) The structure and contents of the tax application shall be determined by the taxation body from paragraph 1 of this Article.

#### **Article 23**

Provisions from Article 11 of this law shall be in effect until 2002.

### **Final Provisions**

Article 24

From the day this law enters into force, the provisions of the Law on Property Tax ("Official Gazette of RoM", numbers 3/92, 30/93, 3/94, 42/94, 20/95, and 45/98) and regulations passed on the basis of this law, which refer to taxation of real estate, shall be repealed.

Article 25

This law shall enter into force within eight (8) days from the day of its publishing in the "Official Gazette of RoM" and it shall be implemented from January 1, 2003.

## Appendix 4

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In accordance with Article 88 Item 2 of the Constitution of the Republic of Montenegro  
I hereby pass the

### **ENACTMENT PROCLAIMING THE LAW ON Tax Administration**

This is a proclamation of the Law on Tax Administration , adopted by the Parliament  
of the Republic of Montenegro at the second meeting of the second regular session in the  
year 2001, on 27 December 2001.

Number: 01-3876/2  
Podgorica, 28 December 2001

President of the Republic of Montenegro  
Milo Djukanovic, signed

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## **LAW ON TAX ADMINISTRATION**

### **I General Provisions**

#### Article 1.

This Act regulates the procedure of assessment, collection and control of taxes and other charges (hereinafter: tax) and other organization principles of the tax authority in the Republic of Montenegro (hereinafter: the Republic).

#### Article 2.

- 1) The following authorities are obligated to act in accordance with this Act: state bodies and local self-management units when deciding on the taxpayer's rights and duties.
- 2) This Act is binding for individuals (citizens), legal entities, organizations, entrepreneurs, tax agents and other parties, as well as for state bodies and bodies of the local self-management units, when they are taxpayers, or when they calculate and pay taxes for taxpayers, or when they have other obligations related to the assessment and collection of the fiscal duties of the tax payers.

#### Article 3.

To issues, which are not regulated by this law, provisions of the Law on General Administrative procedure shall apply accordingly.

#### Definitions

#### Article 4

Certain terms in this Act are defined as follows:

1. "Tax authority" is the authority of the state administration or the authority of the local self-management unit responsible for the activities related to the assessment, control and collection of taxes.
2. "Tax and other duties" are any payments, which are prescribed by the law.
3. "Taxpayer" is a person that is, under the fiscal and other laws, obliged to pay taxes.
4. "Tax agent" is a person that is, under fiscal legislation, obliged to collect taxes from the other persons, either by withholding or by some other mean, and to transfer those taxes to the appropriate fiscal account subsequently.
5. "Tax representative" is a person that is legally authorized to conduct all or some business activities of the tax payer pertaining to the fulfillment of fiscal obligations as prescribed for by the fiscal legislation.
6. "Tax mandatory" is a person authorized in writing by the taxpayer to conduct all or some business pertaining to the fulfillment of fiscal obligations as prescribed for by the fiscal legislation in the name and on behalf of the taxpayer.
7. "Books and records" represent documentation on taxpayer's business transactions prescribed for by the specific legislation, which the taxpayer is obliged to keep, and which shall be used for determination of taxpayer's fiscal duties.
8. "Person" is a legal person, part of a legal person, organization, entrepreneur and physical person obligated to act in accordance with this law.

9. "Order for the transfer of funds" is a document for transfer of funds from an account of the taxpayer to fiscal accounts.
10. "Principal place of business" of a taxpayer (legal person and an entrepreneur) is the place where the share of average number of employees and book value of property of taxpayer is greater than in any other place of business.

## **II Principles of Organization of the Tax Authority**

### **Article 5.**

- 1) Administrative tax authority shall carry out the activities of initiation, conducting and deciding in the procedure of assessment, collection and control of taxes, implementation of the laws and other regulations, as well as deciding on rights and obligations of citizens and other subjects.
- 2) Tax authority referred in the paragraph 1 of this Article shall be established by the Government of the Republic of Montenegro, by decree.
- 3) Internal organization and systematization of tax authority shall be prescribed by the head of tax authority in accordance with the law.

## **Powers of the Tax Authority**

### **Article 6**

Within the scope of its competence the Tax authority is authorized to:

1. Perform inspection control, collection and other acts and activities in its competence, as prescribed for by this Act or other laws
2. Decide on the rights of the taxpayers;
3. Maintain the registry on taxpayers;
4. Assess tax, in the manner and following the proceedings set out by the law;
5. Demand from the tax payers and other persons to submit and present documentation and other information necessary for the implementation of fiscal legislation
6. Summon the persons to participate in the proceedings
7. Enter and inspect the premises where books and records or other objects necessary for the implementation of fiscal legislation are located or may be located
8. Seize books, records and other objects necessary for the implementation of fiscal legislation, in accordance with this Act;
9. Pronounce sentences for fiscal offences and violations as prescribed for by this Act or other fiscal legislation;
10. Use the services of experts and surveyors, physical and legal persons, in the procedure of assessing tax obligations when expertise is necessary;
11. Adopt the regulations that regulate the implementation of tax laws in greater detail;
12. Request assistance from courts in the implementation and execution of tax legislation;
13. Provide information on the type of tax, method of its assessment and conditions for its payment upon the request of taxpayers;
14. Inform the taxpayers about the procedure of the inspection control and their rights and duties in the aforementioned procedure
15. Provide instructive and educational services pertaining to the implementation of the laws;
16. Provide the taxpayers with a single copy of tax declaration free of charge each year;
17. Keep tax secrets;
18. Treat the tax payers and other persons with due respect;

19. Submit criminal report for committed criminal offence to the competent authority and request for initiation of the offence procedure;
20. Forward to the authorities competent for implementation of the laws the information, including the tax secret that had been revealed in the course of the criminal investigation or while gathering other information in cases when there is a reasonable suspicion that a criminal offence or offence had been committed;
21. Take care of the implementation of international conventions and agreements on avoiding the double taxation and other conveniences in the assessment and collection of taxes;
22. Prepare reports on situation in the tax system for the Government and Parliament of Montenegro and assemblies of the local self management units;
23. Gives the initiative to the Ministry of Finance for adoption of the regulations and other acts necessary for regulating of the tax system and tax policy;
24. Cooperate with other national and international authorities and organizations in the field of criminal tax offences in accordance with the international conventions and agreements;
25. Undertake measures necessary to make tax officials safe;
26. Take measures aimed at prevention of corruption of officials while acting in official capacity;
27. Organize functioning of unified information system in field of taxes;
28. Ensure the implementation of decisions and conclusions of the Government and the Parliament of the Republic in the field of taxes;
29. Perform other activities prescribed for by this act and other tax regulations;

### **III General provisions on Tax Procedure**

#### **Summons**

##### **Article 7.**

- 1) The Tax authority shall be entitled to summon any person in case when it deems that person's presence is needed in the procedure of implementation of fiscal legislation.
- 2) The Tax authority shall be entitled to summon persons for purposes of interrogation, testimony, expertise, presentation of the documents, books and records and objects necessary for the implementation of fiscal legislation, delivery of decisions, or conclusions, or for purposes of statements that cannot be delivered by mail or in any other way that is convenient for the person receiving the statement.
- 3) Persons shall be summoned by the means of written summons, unless otherwise prescribed for by this Act.
- 4) Person shall be summoned by virtue of the orders of the head of field branch, or a person that had been authorized by him / her.
- 5) In cases when persons are summoned for purposes of interrogation, testimony, expertise, presentation of documents, books and records, the tax authority shall be obliged to deliver summons referred to in paragraph 3 of this Article at least 3 working days before date that is set in summons for taking these actions.
- 6) Summons referred to in paragraph 3 of this Article shall include:
  1. Title of the fiscal organ that had issued the summons;
  2. First and last name, or the title / firm of person that is being summoned and fiscal identification number (hereinafter: FIN);
  3. Place, date and time where the summoned person should arrive;
  4. The subject matter and the capacity in which the person is being summoned (party in proceedings, witness, expert, interpreter etc.);
  5. Which auxiliary means and resources should the summoned person obtain, or bring as evidence.

- 7) In case when the summons pertains to submission of books, ledgers, records, documentation and other objects, the summons shall contain specific data on books, ledgers, records, documentation and other objects that need to be submitted.
- 8) The summons shall include information whether the summoned person is obliged to appear in person or is entitled to send a mandatory that shall represent the summoned person and the summoned person shall be warned about the consequences if he fails to respond to summons or inform the organ that had issued the summons about the reasons why it cannot come at time and place prescribed in summons.
- 9) Person that is younger than 18 years shall be summoned through his/her parents or other legal representatives.
- 10) In justifiable cases, the person that has been summoned shall be entitled to request from the Tax authority to alter the time or place of interrogation, testimony, expertise, interpretation or submission of documents listed in the summon.
- 11) The persons shall be ordinarily summoned during the working hours of the Tax authority. In cases of urgent measures that cannot be postponed, a person may be summoned after the working hours of the Tax authority and on the days that are not working days.

### **Duties of the Summoned Persons**

#### **Article 8.**

- 1) A person that had been summoned shall be obliged to respond to the summons.
- 2) If a summoned person is prevented from responding to summons because of sickness or other justifiable causes, the person shall be obliged to inform about it the fiscal organ that had issued the summons immediately after receiving the summons, if possible. If it is not possible the summoned person is obliged to appear at the tax authority after cessation of the reasons and justify his/her absence.
- 3) In cases when unjustifiable failure to respond to summons had caused particular costs, the Tax authority shall be entitled to decide that person failing to respond to summons shall be obliged to cover those costs.
- 4) The head of the field branch of the Tax authority shall adopt the decisions on taking in, on fining of person that had failed to respond to summons, as well as decision on payment of costs of procedure against which an appeal may be lodged.

### **Interrogation of Parties**

#### **Article 9.**

- 1) Under the provisions of this Act, any person that had been registered in the competent fiscal organ as a taxpayer shall be considered as party.
- 2) Parties shall be interrogated in the fiscal procedure at the Tax authority's summons or at party's own request.
- 3) Parties shall be interrogated by an authorized official of the Tax authority (hereinafter: authorized official) who is in charge of the assessment, inspection and audits, collection or the investigation proceedings, whenever he/she deems it necessary for purposes of establishing the facts and circumstances relevant for deciding in the fiscal matter, or enabling the party to realize or protect its rights and legal interests.

- 4) The authorized official of the Tax authority in charge of proceedings shall determine the course of interrogation procedure in accordance with the circumstances of each particular case, ensuring that the party has the right to present facts relevant for determination of fiscal matter, propose proofs for establishing those facts, dispute the claims that are opposite to its claims, and to give statements on facts and circumstances presented in investigation, proposals and offered proofs, to participate in derivation of evidence and pose questions to other parties, witnesses and experts through the official, or pose them directly, with the official's consent, as well as to ensure that the party shall be given an opportunity to get acquainted with the conclusions derived from the evidence and to make a statement about it.
- 5) In the course of interrogation proceedings, the authorized official who is in charge of the proceedings shall be entitled to decide whether he / she will interrogate the party about all or only particular facts and circumstances relevant for the fiscal matter.
- 6) Ordinarily the party shall give oral statements in the course of interrogation, but the party may also submit written statements.
- 7) Mandatory of the party shall be entitled to participate in the interrogation proceedings. The party, mandatory of the party and the Tax authority shall also be entitled to record the entire course of the interrogation on a tape.
- 8) The authorized official in charge of interrogation shall not be entitled to extort evidence from the party by force or deceit, nor shall the official be entitled to enforce the party into drawing up or signing the written statements or documents.
- 9) Before interrogation of a party, the authorized official in charge of the procedure shall be obliged to warn the party about the criminal and material liability for giving a false statement.

### **Interrogation of Witnesses**

#### **Article 10.**

- 1) Under the provisions of this Act, any person acquainted with facts that are object of testimony and is capable to testify about that fact shall be considered as witness.
- 2) Person that participates in the procedure in the capacity of the authorized official shall not be considered as a potential witness.
- 3) A person that would violate the state, military or official secret by submitting a statement shall not be interrogated as witnesses before the competent organ relieves them of the duty of respecting the aforementioned secret(s).

#### **Article 11.**

A witness shall be entitled to decline to give a testimony under the following conditions:

1. An answer to the posed question would expose the witness and witness' spouse to criminal indictment;
2. An answer to the posed question would violate the duty, or the right to keep business, professional, artistic or scientific secret. Witness shall prove the existence of the secret before a competent court in the event of doubt.
3. The answer to the posed question pertains to something that the party had confided to the witness as his attorney;
4. The answer to the posed question pertains to something that the party or another person had confided to the witness as a religious confessor;

#### **Article 12.**

- 1) Witnesses shall be interrogated individually, without the presence of the other witnesses that will be interrogated at a later stage of interrogation procedure.
- 2) The witness that had been interrogated shall not be entitled to leave the premises where the interrogation takes place without an authorization from the authorized official that is in charge of the proceedings.
- 3) The authorized official that is in charge of the proceedings shall be entitled to interrogate again the witness that had already been interrogated and to confront the witnesses whose statements were contradictory.
- 4) Person that cannot respond to the summons due to his / her illness or physical disability shall be interrogated in his / her apartment, or other place of residence.

Article 13.

- 1) At the beginning of interrogation, a witness shall be warned that he / she is obliged to speak the truth, that he / she shall not withhold any information and that he / she may be criminally indicted for giving a false testimony.
- 2) Personal data shall be obtained from a witness in the following order: First and last name, FIN (if assigned), profession, place of residence, or habitual residence, place of birth, age, marital status, place of employment.
- 3) The authorized official in charge of the proceedings shall instruct the witness to which questions he / she is entitled to decline to give an answer.
- 4) After this, the witness shall be interrogated about the fiscal matter itself and shall be invited to give statement about everything he / she knows about the matter.
- 5) It shall be forbidden to pose suggestive and leading questions to the witness in the course of interrogation.
- 6) The witness shall always be asked to state where he / she has gained knowledge about the things he / she is testifying to.

Article 14.

- 1) If the witness does not know the language in which the proceeding is conducted, he / she shall be provided with an interpreter.
- 2) If the witness is deaf, questions will be posed in writing, and if the witness is dumb, he / she will be asked to respond to questions in writing.
- 3) If interrogation cannot be performed in the aforementioned manner, a person that is able to communicate with the witness shall be summoned as interpreter.

**Connected persons**

Article 15

- 1) Related persons consist of persons that have special relations between them who may have a direct influence on the conditions or economic results of transactions between them.
- 2) Such special relations include, in particular, relations where:
  1. the persons are founders (participants) of the same enterprise, if each person's share is not less than 10 percent;

2. one person has a direct or indirect interest in another person which is an enterprise, where such an interest is not less than 10 percent;
  3. one person is subordinate to the other person in terms of his business position, or one person is under control (directly or indirectly) of the other person;
  4. the persons are sister enterprises or are under direct or indirect control of a third person;
  5. The persons directly or indirectly control a third person, if each person's voting right is not less than 10 percent.
- 3) Connected person from the paragraph 1 of this Article shall also be a member of family of the taxpayer. Member of the family shall be every person, which as such is defined by the laws regulating specific types of tax.

### **Tax Secret**

#### **Article 16**

- 1) Fiscal secret is any information or data about the tax payer that the Tax authority holds, except for:
  1. Information and data for which the tax payer states in a written form signs a written statement stating that they shall not be regarded as fiscal secret;
  2. Information and data that cannot be connected with a particular tax payer, nor can be identified in any other manner;
  3. Information data pertaining to existence of fiscal debt if the mortgage, or contract on fiduciary transfer, that had been used as security has been registered in the real estate register
  4. Registration data of the taxpayer, F.I.N, name / firm / title and the principal place of business;
  5. Value of real estate.
- 2) Information, which is considered to be a tax secret may, at the request of the competent state authority, be made available to that authority in accordance with the law.

### **Minutes**

#### **Article 17**

- 1) Minutes shall be taken on the course of interrogation, course of inspection control and on important oral statements of witnesses, experts and the third persons in the procedure.
- 2) The authorized official in charge of the procedure, or a person, employee of the tax authority, authorized by that official shall draw up the minutes.
- 3) The minutes shall be drawn up in as many copies as there are participants in the procedure, plus one copy that shall be kept by the Tax authority.
- 4) The following data shall be included in the minutes: The title of the fiscal organ that is performing the actions, the place where actions are taken, day and time when they are taken, the matter in which actions are taken, names of the officials, present parties, their representatives and mandatory.
- 5) Minutes shall contain a brief and precise description of actions taken and contents of statements given in the procedure. The minutes shall confine themselves solely to the fiscal matter that is subject of the procedure. Records of all documents, papers and all other objects that had been used in the procedure shall be included in the minutes, and the documents and papers shall be submitted with the minutes when necessary.
- 6) Statements of parties, witnesses and experts shall be entered in the minutes as precisely as possible, in their own words when necessary. All conclusions adopted by the authorized official during the procedure shall be recorded in the minutes.
- 7) If the interrogation of parties, witnesses or experts had been conducted through an interpreter, the language used and the name of the interpreter shall be entered in the minutes.
- 8) The minutes shall be taken during the procedure. If the procedure lasts more than one day, each day shall be separately entered in the minutes and orderly signed. If the procedure on which the minutes are taken could not have been finished without interruptions, a note on interruptions shall be made in the minutes.



Article 18.

- 1) Minutes shall be kept orderly and nothing shall be erased from the minutes.
- 2) Parts of the minutes that had been crossed out until the closing of the minutes shall be kept legible and shall be certified with the signature of the authorized official who is in charge of the procedure.
- 3) Nothing shall be altered in or added to the minutes that had been already closed. The additions shall be entered in a separate annex to the minutes.

Article 19.

- 1) Before the closing of the minutes, the minutes shall be read to the persons that had participated in procedure and those persons shall be entitled to go through the minutes on their own and make their remarks and objections.
- 2) The authorized official or person that had been taking the minutes shall be obliged to note that the minutes had been read at the closing of the minutes and that there have been no objections on or remarks to it. In cases where there had been objections on or remarks to the minutes, the contents of the objections and remarks shall be briefly entered in the minutes. The persons that had participated in the procedure shall sign the minutes, and the authorized official in charge of procedure and person taking minutes, if the official hadn't taken the minutes him- / herself, shall certify it by their signatures.
- 3) A number shall mark each page of the minutes if the minutes consist of more than one page. The authorized official in charge of procedure and the person whose statement has been added at the end of the page shall certify each page by their signatures at the bottom of each page.
- 4) Amendments and annexes to the already closed minutes shall be signed and certified over again.
- 5) If a person that shall sign the minutes is illiterate or cannot write, a person that is literate shall sign the minutes for him / her and add his / her own signature as well. The person signing the minutes for an illiterate person / person that cannot write shall not be the official in charge of procedure or the person that had drawn the minutes up.
- 6) If a person refuses to sign the minutes or leaves the premises where minutes are taken before the minutes are closed, a note about it shall be entered in the minutes and the reasons for failing to sign the minutes shall be entered in the minutes.

Article 20.

- 1) Minutes drawn up in accordance with the provisions of this Act shall be regarded as a certified instrument. The minutes shall be regarded as evidence on the course and contents of the procedure and statements given in procedure, except the parts of minutes to which the interrogated person had made objections to as incorrectly drawn up.
- 2) Parties to the procedure shall be entitled to submit objections to the minutes in a three working day term commencing on the day they had received the minutes. The Tax authority shall decide on the objections to the minutes in a decision on the principal subject matter of the procedure.

**Acts in the fiscal proceedings**

Article 21.

- 1) Fiscal act is any act by which an action in the fiscal proceedings is initiated, amended, altered or finalized.
- 2) Decision, conclusion, minutes on inspection control and audit, order for the performance of inspection control and audit, minutes of interrogation, summons and other acts shall be considered as fiscal act from Paragraph 1 of this Article.
- 3) Fiscal acts through which decisions are made on certain rights and obligations related to the fiscal legal relations are the decision and the conclusion.

### **Form and contents of the Fiscal act**

#### **Article 22.**

- 1) Fiscal act is adopted in a written or an oral form.
- 2) Oral fiscal act can be adopted by the authorized official of the Tax authority and can order the immediate execution of that act in case when there is a reasonable doubts that the collection of tax shall be prevented.
- 3) When announced, the oral fiscal act must be issued in written form within three days from the day of its adoption.
- 4) The fiscal act from Article 20 of this Act must contain the following:
  1. Name of the fiscal organ, reference number and date;
  2. Name of the person to whom it is delivered;
  3. Legal and factual basis;
  4. Signature of the authorized person;
  5. A seal
- 5) Fiscal act that imposes certain activity or non-activity must also contain the warning about the consequences in case of failure to act accordingly.
- 6) Mandatory contents of the fiscal decision are prescribed by this Act and are applicable in case of conclusions, as well.

### **Act Delivery**

#### **Article 23.**

An act is considered delivered:

1. To the legal person if it has been delivered to the head (legal representative or authorized mandatory) of the legal person, if the tax officer has left it at the address of the legal person stated in the registration application form or in the last tax declaration, or if the document has been sent by registered mail to the last known address of the legal person and
2. to the individual, if it has been delivered to that individual or his/her legal representative or mandatory, or if the authorized officer has left it at the address of that individual stated in the registration application form or in the last tax declaration, or if the document has been sent by registered mail to the last known address or place of residence of that person.

Inspection of Premises Where Books, Records and Other Objects Relevant for Establishment of Fiscal Obligations Are Kept

#### **Article 24.**

- 1) An authorized official of the Tax authority shall be entitled to enter into and inspect any premises where:
  1. Books and records or other objects necessary for determination of the fiscal duties are kept or may be kept;
  2. Any activity that may be subjected to taxation takes place or may take place.
- 2) An authorized official from Paragraph 1 of this Article may enter an apartment or any other place without the consent of its holder and search the place only on the basis of a court order.
- 3) The search is performed in the presence of two witnesses.

## **IV Rights and Duties of the Tax Payers**

### **Rights of the Tax Payers**

#### Article 25.

- 1) The taxpayer shall be entitled to:
  1. To be informed punctually and in due time about all issues that enable him / her / it to submit tax declarations and pay fiscal duties;
  2. Demand that collected data on assessment of fiscal duty shall be kept as fiscal secret and shall be used, or transferred only to the institutions and organs in procedures and in manner prescribed for by this Act;
  3. Demand reconsideration and new assessment of his / her / its fiscal duties in a manner prescribed for by this Act;
  4. Receive information from the Tax authority about the fiscal legislation, and rights and duties prescribed by it free of charge;
  5. Receive a copy of tax declaration form and one copy of each of the other fiscal forms for his / her / its purposes;
  6. To be treated with respect for his / her dignity;
  7. Represent his / her / its own interests before the Tax authorities either individually or through a mandatory;
  8. Use the fiscal relieves in accordance with the fiscal legislation;
  9. Submit reports on calculation and payment of taxes;
  10. To be present during the office or field inspections, as prescribed for by the fiscal legislation;
  11. Submit appeal against the decisions of the Tax authority;
  12. Realize other rights prescribed for by the Act.
- 2) The taxpayers whose rights, prescribed for in this article, had been violated shall be entitled to legal protection that shall be realized through lodging of a complaint in the competent court.
- 3) If the court establishes that the rights of the taxpayer have been violated, expenses and compensation of the damage shall be borne by the tax authority.

### **Duties of the Tax Payers**

#### **Article 26.**

The taxpayer shall be obliged to:

1. Submit declaration to the competent fiscal organ for purposes of registration;
2. Submit tax declaration to the competent fiscal organ in the form and in terms prescribed for by the fiscal legislation;
3. Report to the responsible tax authority any change of the principal place of business, place of permanent or current residence or other data from the taxpayers' register;
4. Keep books, records and ledgers in the manner and during period as prescribed by the law;
5. Fulfill its fiscal duties in the manner and within deadlines provided for by the fiscal legislation;
6. Submit all documents and other data necessary for assessment of fiscal duties upon a request of the Tax authority;
7. Enable the officials of the Tax authority to work without any obstruction when executing legal authority;
8. Inform the competent fiscal organ about the opening or closing of the transfer accounts or any other accounts in banks, or other financial institutions within five days from the day of opening or closing of the account;
9. Perform other duties prescribed for in the fiscal legislation.

### **V Registration of the Tax Payer**

#### **Article 27.**

- 1) Registration of the taxpayer with the responsible tax authority is performed on the basis of a tax declaration in the tax register in the terms and manner prescribed by this Act.
- 2) The following persons are obligated to submit the registration application form:
  1. Legal person or organization acquiring revenues in the Republic;
  2. Physical person acquiring revenue or owning property in the Republic;
  3. Foreign legal person or organization acquiring revenues in the Republic;
  4. Foreign physical person acquiring revenue or owning property in the Republic;
- 3) The competent tax authority shall issue the act on registration and assign the Fiscal Identification Number (FIN) to the taxpayer upon the registration.
- 4) Ministry of Finance shall prescribe for the form and contents of the application form.

#### **Article 28.**

- 1) Tax authority keeps the taxpayers' register.
- 2) Taxpayers' register is a set of data on the taxpayer comprised of the registration entry book and a collection of documents. Registration entry book consists of the registration sheets in which all the data that is being registered is entered. Collection of documents is a chronological order of documents and acts based on which an entry into the registration entry book has been performed.
- 3) Together with the registration application form persons from Article 27, Paragraph 2 of this Act shall also submit:
  1. Identification proof (act on registration of the legal person or an entrepreneur, ID card, passport, driver's license);
  2. Certificate of extended family unit;
  3. Property ownership certificate;

4. Proof of employment.

**Time and Place of Registration**

Article 29.

- 1) Person from Article 27, Paragraph 2, Item 1 of this Act submits the registration application form to the field branch that is competent for its principal place of business.
- 2) Person referred to in Article 27, Paragraph 2, item 1 of this Act, whose principal place of business is outside the Republic, submits the registration application form to the field branch that had been determined by the director of the Tax authority.
- 3) Part of legal person from Article 27, Paragraph 2, Item 1 of this Act submits the registration application form to the field branch that is competent for principal place of business of aforementioned part.
- 4) Person from Article 27, Paragraph 2, Item 3 of this Act submits the registration application form to the field branch that is competent for the principal place of business of that person.
- 5) Persons referred to in paragraph 1 of this article submit the registration application form within five working days from the day of registration or from the day when the performance of activity commences.

Article 30.

- 1) Persons referred to in article 29 of this Act can have only one principal place of business. In cases when more than one field branch consider that a tax payer's principal place of business lies within their competence, the director of the Tax authority, or a person authorized by him/her, shall determine the principal place of business of the tax payer.
- 2) Persons referred to in article 29 of this Act are obliged to inform in a written form the field branch of the tax authority where they were registered on a change of the principal place of business within 5 working days as of the day when the change occurred.

Article 31.

- 1) Person from Article 27, Paragraph 2, Item 2 of this Act submits the registration application form to the field branch based on the place of residence of the physical person.
- 2) Persons from Article 27, Paragraph 2, Item 4 of this Act submit the registration application form to the field branch based on the place of their current residence of the physical person.
- 3) Persons from this Article submit the registration application form within five working days from the day of registration or from the day when the performance of activity commences.

Article 32.

In case when Tax authority considers that a special regime of supervision and control of the persons from Article 27, Paragraph 2, Items 1 and 3 is necessary due to the size, scope and complexity of its transactions, the director of the Tax authority shall decide in which field branch these persons shall be registered, and shall inform the taxpayer of that decision.

Article 33.

Persons from Article 27 of this Act are obligated to inform the Tax authority about all the changes that take place during the business activity that are related to the data entered into the taxpayers' register, within 15 days from the day when the change takes place.

### **Duties of Administrative and Judicial Organs in Charge of the Registration**

#### **Article 34.**

- 1) The court keeping the record of legal entities, organizations and entrepreneurs is obligated to inform the competent field branch of the Tax authority about registration, a change of status or liquidation of a legal entity or an organization within five working days from the day when the actions took place.
- 2) The organ of the local self-management unit that keeps records on individuals' place of residence, their birth and death and the state organs keeping the register of inhabitants are obligated to inform the competent field branch of the Tax authority about it within five working days from the day of entry of the place of residence, birth or death.

### **Duties of the Providers of Payment Services**

#### **Article 35.**

Providers of payment services (payment system participants) shall open the account to the taxpayer on condition that the taxpayer presents the act on registration with the Tax authority.

## **VI Tax Declarations**

#### **Article 36.**

- 1) Document that is drawn up and submitted to the Tax authority on the prescribed form shall be regarded as tax declaration within the meaning of this Act.
- 2) The tax declaration must include the general and the specific part. The data on the taxpayer from the register shall be included in the general part of the tax declaration, and the data relevant for assessment of fiscal duties shall be included in the specific part of the tax declaration.
- 3) The taxpayer is obliged to submit all the documentation relevant for the assessment of tax liability along with the tax declaration.
- 4) Unless otherwise prescribed for by this Act, the taxpayer shall be obliged to submit the tax declaration to the tax authority where he/she/it had been entered in the register of the taxpayers.
- 5) Tax declaration shall be submitted separately for each form of taxes in the terms and manner prescribed for by the fiscal legislation.
- 6) The taxpayer shall submit the tax declaration directly or by mail.
- 7) The taxpayer shall be entitled to submit the tax declaration on a disc or some other form that enables computer processing of the data.
- 8) Taxpayer or his/her/its mandatory shall sign the tax declaration under the threat of penalty for perjury. Responsibility shall also be borne by an expert person that made either the entire tax declaration or part of the tax declaration. The expert person shall be obliged to sign the tax declaration and include his/her/its' FIN in it.

- 9) In cases when tax declaration had been submitted to the field branch that is not competent, that field branch shall be obliged to forward declaration to competent field branch, with a note on the date when declaration had been received. The tax declaration that had been delivered in the aforementioned manner shall be considered as submitted in due term.
- 10) Unless otherwise prescribed for by the fiscal legislation, the Tax authority shall prescribe the form, contents and manner of filling out the tax declarations.

### **Filing and Submission of Tax Declaration by the Tax authority**

#### **Article 37.**

- 1) The Tax authority shall be entitled and obligated to fill out incomplete and to correct incorrectly filled- out tax declarations within 30 days from the day when the term for submitting the tax declaration had expired.
- 2) The Tax authority shall be entitled and obligated to submit the tax declaration on behalf of the taxpayer who had not submitted it within 30 days from the day when the tax authority discovered it.
- 3) The Tax authority shall be obliged to deliver a copy of the tax declaration from this Article to the taxpayer.

### **Amended Tax Declaration**

#### **Article 38.**

- 1) Taxpayer who has discovered that the tax declaration he/she/it had previously submitted directly or through a mandatory contains a mistake or an omission shall submit an amended tax declaration in which the mistake or the omission has been corrected.
- 2) The amended tax declaration that had been submitted before the expiry of term for submitting the declaration shall be considered as submitted in due time.

### **Information Declaration**

#### **Article 39.**

Information declaration is a report submitted to the competent tax authority, in which taxpayer and other person provides data on the acquired income and other data relevant for assessment of the fiscal duties.

### **Declaration on Tax after Deduction (Withholding tax)**

#### **Article 40.**

- 1) Tax agent when withholding tax is obligated to calculate, withhold and pay tax, and to submit respective report to tax authority thereupon.
- 2) Person referred to in the paragraph 1 of this Article shall deliver the copy of the report to the person whose part of income has been withheld.
- 3) The Tax authority shall prescribe form and content of the report referred to in the paragraph 1 of this article.

**Authorization of the Tax authority to extend the Term for Submitting a Tax Declaration**

Article 41.

- 1) The director of the Tax authority shall be entitled to authorize, at the request of a taxpayer, the extension of term for submission of tax declaration for up to 90 (ninety) days after the expiry of the term in which the declaration should have been submitted originally.
- 2) The extension of the term from Paragraph 1 of this Article shall be authorized in the case of: illness, absence from the country and other circumstances that had befallen the taxpayer and which he/she/it was unable to control.
- 3) The request from Paragraph 1 of this Article is submitted in writing within the deadline prescribed for the submission of tax declaration, where the reasons for the extension of term have to be proven.
- 4) The request referred to in the paragraph 3 is decided upon through the adoption of a decision within 7 days from the day when the request was received.
- 5) The extension of the term in accordance with this Article shall not have any effect on the term in which payment of taxes is due, nor on the calculation of interests for the aforementioned time period.

**VII Fiscal Duty**

Article 42.

- 1) Fiscal duty is the obligation of taxpayer to pay taxes, penalties or interests, either separately or jointly, under the conditions prescribed for by the fiscal legislation.
- 2) Fiscal duty referring to tax, penalty or interest is considered due within the terms set out by the law.
- 3) Term for payment of fiscal duty may be changed or its fulfillment postponed only under conditions prescribed by this law.

Liability of an Individual for Fiscal Duty

Article 43.

- 1) Person responsible for disposing with the financial means of the taxpayer, in the case of the insolvency of the later, is jointly and severally liable if he/she is not paying the outstanding tax in accordance with the order prescribed by the law.
- 2) Provisions of the paragraph 1 of this Article apply also to a tax agent.

**Liability of an Individual for Fiscal Duty**

Article 44.

When an individual transfers property directly or indirectly to other individual who:

- is his spouse or common law partner, or has become that at the moment of transfer;
- is not yet 18 years old; or
- is not dealing with him at arms length,



the transferee and the transferor shall be jointly and severally liable for the amount of tax debt, but not in excess of the difference between the selling and market price of the transferred property

#### **Liability of the Individual (director) for Payment of the Withholding Tax**

##### **Article 45.**

- 1) If the legal person or organization does not withhold, transfer or pay tax, penalty or interest for specified tax period, the director of the legal person or organization at the time when the fiscal duty was due, shall be jointly and severally liable with the legal person or organization for payment of the outstanding tax, penalty or interest.
- 2) Director shall not be held liable for fiscal duty of the legal person or organization if the tax authority does not file the request for payment of the tax, penalty or interest, within 6 months of the day of commencement of the liquidation or bankruptcy procedure.

#### **Liability for Fiscal Duties of the Legal Person or Organization in the Case of Liquidation**

##### **Article 46.**

- 1) Legal person or organization which is being liquidated is obligated to submit to the tax authority, the plan of liquidation and a tax return prescribed by the law within 30 days of the date of initiation of the liquidation procedure.
- 2) Tax debt must be paid before the liquidated legal person or organization commences with the payment of its liabilities to creditors or distribution of the property to owners or shareholders.
- 3) If the legal person or organization is insolvent, tax authority shall initiate the procedure of collection before the competent court.

#### **Liability for Fiscal Duties of an Investment Fund in Case of Liquidation**

##### **Article 47.**

- 1) Fiscal duty of the liquidated investment fund shall be paid by the liquidation administrator from the monetary resources of the investment fund, including the income made through the sale of its assets.
- 2) Fiscal duties of the liquidated investment fund shall be settled in a three- month term starting on the day when the liquidation procedure begun.

#### **Liability for Fiscal Duties in Cases of Status Changes of Legal Entities or Organizations**

##### **Article 48.**

- 1) In case of the status change or reorganization of a legal entity or an organization, (merging, accession, division, separation etc), the legal successor of the reorganized legal entity or organization shall be liable for its fiscal duties.
- 2) Legal successor referred to in the paragraph 1 of this Article is liable for the tax debt arisen before the status change or reorganization took place.

- 3) In cases when there is more than one legal successors of the person referred to in the paragraph 1 of this Article, all of them shall be jointly and severally liable for the payment of fiscal duties.

Liability for Fiscal Duties of Persons That Had Deceased, Are Missing or Have Lost Legal Capacity

Article 49.

- 1) The heirs of a deceased person shall be liable for deceased person's fiscal duties up to the value of inheritance and in proportion to each heir's share in inheritance. In cases when there are no heirs the fiscal duties shall be settled from the property of the deceased person.
- 2) Legal representative or executor of a testament of a person that had been declared missing by the court should be liable for that person's fiscal duties.
- 3) Legal representative of a person that had lost his / her legal capacity by a court's ruling shall pay for the fiscal duty from the property of that person.

**VIII Payment of Fiscal Duties**

Article 50.

- 1) Payment of fiscal duties means payment of entire sum of taxes, penalties and (or) interest that had matured in the manner and procedure prescribed for by this Act and the other fiscal legislation.
- 2) Payment of fiscal duties is carried out by the taxpayer within terms and in the manner prescribed by the tax laws.
- 3) Payment of fiscal duty is carried out, by rule, through the payment services providers, by transfer in favor of appropriate accounts.
- 4) Day of payment of the fiscal duty shall be the day when the respective payment is received on the appropriate account.
- 5) Minister of finance shall prescribe the payment accounts for taxes.

**Order for Payment of Fiscal Duties**

Article 51.

- 1) Order for payment of fiscal duties is a financial document submitted by the taxpayer on a prescribed form.
- 2) The taxpayer shall be obliged to designate to which particular tax the order for payment pertains to when issuing the order.
- 3) Payment of taxes from Paragraph 2 of this Article shall be performed in the following order:
  1. Interest;
  2. Penalty;
  3. Tax.
- 4) Payments of particular penalties that are not connected with the tax shall be performed in the following order:
  1. Interest on penalty;

2. The sum of penalty.
- 5) If taxpayer fails to designate to which particular tax or penalty does the payment pertain to, or if the payment is performed by the Tax authority in accordance with the provisions of articles 60, 62 and 63 of this Act, the payment shall be performed in the following order:
  1. Interest;
  2. Penalty;
  3. Tax;

## **IX Assessment of Fiscal Duties**

### **Article 52.**

- 1) Assessment of fiscal duty is a procedure of calculating the fiscal duty carried out by the taxpayer or the tax authority.
- 2) The assessment referred to in paragraph 1 of this article shall be performed by a taxpayer, if otherwise not provided by the law.
- 3) In case when a taxpayer does not perform the assessment or it is performed incorrectly and incompletely the assessment of a fiscal duty shall be performed by a tax authority;
- 4) Records of tax duty assessed in the manner referred to in the paragraphs 2 and 3 of this article is carried out by the tax authority, upon:
  1. the tax declaration had been received;
  2. adjustment of the sum of fiscal duty stated in an tax declaration that is incomplete or incorrectly filled;
  3. Tax declaration had been submitted by a tax authority in the name of a taxpayer.
- 5) Fiscal duty referred to in paragraph 3 of this article shall be assessed by the competent tax authority by means of decision.
- 6) Decision on assessment of fiscal duty is passed by the tax authority when such act is prescribed by the law.

## **Tax Decision**

### **Article 53.**

- 1) The tax authority shall adopt a decision referred to in the paragraph 5 of article 52 of this law, on the basis of business books and records of the taxpayer.
- 2) If the tax authority cannot pass the decision referred to in the paragraph 1 of this Article on the basis of business books and records of the taxpayer, then the decision shall be passed based on estimation of the tax base.
- 3) The manner and procedure of assessment of tax base referred to in the paragraph 2 of this Article shall be prescribed by the Tax authority Tax authority shall estimate the tax base if the taxpayer:

## **Form and Content of a Tax Decision**

Article 54.

- 1) The tax decision is adopted in a written form and it shall be designated as such.
- 2) The tax decision shall contain:
  1. title of a tax authority, reference number and date of decision;
  2. introduction, enacting clause and explanation;
  3. advise on legal remedy,
  4. Signature of the authorized person and seal.
- 3) The enactment clause shall contain in particular: title/name of the taxpayer, fiscal identification number (FIN), type of tax, tax base, tax rate, amount of the assessed tax, tax period, relieves, the account to which the payment shall be transferred, order for payment, term and conditions of making the payment, the amount of tax deduction, interest and interest rate and a note that the appeal shall not postpone execution of decision.
- 4) An appeal may be lodged with the second instance authority against the tax decision referred to in paragraph 1 of this article within 15 days as of the day when decision was delivered.
- 5) An appeal does not postpone the execution of the decision.

**Payment of a fiscal duty in accordance with decision**

Article 55.

Fiscal duty assessed by the decision shall mature for payment in a ten- day term starting on the day when the decision on payment of fiscal duty had been delivered.

**X Measures for Collection of Taxes**

Article 56.

- 1) Measures for collection can be taken solely for a fiscal duty for which decisions on payment had been delivered and which had not been paid in the term prescribed for it.
- 2) The following shall be exempted from measures of enforced collection of taxes:
  1. Clothes, footwear, underwear and other items for personal use, bed sheets, dishes, oven, refrigerator and parts of furniture which are necessary for the taxpayer and for the members of his household;
  2. food and fuel for the needs of tax debtor and members of his household for three months;
  3. invalid apparatuses, which necessary for the tax debtor or member of his family for basic life functions;
  4. medals, decorations, war memorials and other signs of recognition for merits, personal correspondence, manuscripts and other personal writings of taxpayer, as well as family pictures;
  5. one half of salary, pensions or other social welfare receipts;
  6. receipts from legal sustenance, compensations of damage resulting from impairment of health or diminishment or loss of working ability, and from loss of maintenance as a consequence of death of the person providing maintenance;
  7. material subsistence, allowance for children and other receipts in form of social welfare;
  8. receipts during temporary unemployment;
  9. Compensation for physical injury in accordance with legislation on insurance for invalids.

Article 57.

Monetary resources which are collected by measures of enforced collection, and which are in excess of the amount of tax duty of the tax payer, shall be recognized as either tax deduction or refund in accordance with this law.

Article 58.

- 1) Measures of collection shall be executed by adoption of the decision, which must be passed by the competent tax authority that assessed the tax duty.
- 2) Decision referred to in paragraph 1 of this Article includes in particular:
  1. title of the executive act on assessment of fiscal duty on the basis of which enforcement is determined;
  2. the sum of a fiscal debt sorted by the maturity, and belonging interests, and penalties;
  3. the term for payment of fiscal debt;
  4. subject and means of enforcement;
  5. number of the account of the taxpayer and number of the account in favor of which payment is being made;
  6. closer identification of real estate according to the data from the public books;
  7. order to the taxpayer to pay fiscal duty within indicated period;
  8. Indication those execution expenses are borne by the taxpayer.
- 3) In case when collection is made from salaries, pensions and other financial claims of the taxpayer the decision on collection shall include the name /firm of the person making a payment and his seat.

Article 59.

- 1) Appeal may be lodged against the decision referred to in the Article 58 of this law within 3 days from the date of delivery of the decision.
- 2) Appeal does not postpone the execution of the decision.

**Security of the Fiscal Liability by Means of Lien**

Article 60.

- 1) If the taxpayer fails to pay fiscal duty assessed by the tax authority within the prescribed term, property and property rights of taxpayer shall become objects of lien in favor of the user of public funds deriving from respective fiscal duty.
- 2) The legal security shall begin on the day when the deadline for payment of fiscal duty has expired and last until the settlement of fiscal duty or the annulment of the tax decision.
- 3) The field branch that had assessed the fiscal duty or the field branch that is responsible for collecting the unpaid fiscal duties shall register a lien on real estate (mortgage) in the public book according to the place where the real estate is located and lien on movable property shall be registered in accordance with special law.
- 4) The registration of lien (mortgage) on real estate shall be carried out in accordance with special act adopted by the Tax authority
- 5) The Tax authority may publicize the registered lien.
- 6) Tax authority shall strike out the lien within 2 days after payment of fiscal duty

Stopping of the Transactions through Accounts with the Providers of Payment Services

Article 61.

- 1) Stopping of the transactions through the accounts with providers of payment services is a measure through which the tax authority limits the right of taxpayer to dispose of funds on his accounts, as well as the right to open new accounts.
- 2) The limitation of right to dispose with the funds that are already on or are being transferred to tax payer's account shall not affect the transactions pertaining to the payment of fiscal duties.
- 3) The decision to stop transactions through accounts with providers of payment services shall be adopted by field branch that had assessed the fiscal duty or is otherwise charged with its collection.
- 4) The tax authority shall deliver the decision referred to in paragraph 3 of this Article to all institutions where the taxpayer has opened accounts and a copy of the decision to the taxpayer.
- 5) The decision on stopping the transactions shall be immediately enforced by payment services providers on the day when it was delivered.
- 6) The decision on stopping the transactions on taxpayer's account shall enter in force on the day when the order had been delivered and shall remain in force until:
  1. The settlement of the fiscal duty;
  2. Annulment of the decision on fiscal duty;
- 7) The field branch of the Tax authority shall be obliged to inform the provider of payment services and taxpayer within two working days starting on the day when the referred to in paragraph 3 of this article ceased to be in force.

**Collection of Fiscal Duties from the Monetary Funds**

Article 62.

- 1) Collection of fiscal duty from the monetary funds shall consist of transfer of funds from taxpayer's account with providers of payment services to the account of budget and other accounts of Republic on the basis of a tax decision.
- 2) Collection of fiscal duty referred to in the paragraph 1 of this Article refers to withholding of salaries, pensions up to 1/3 of the total monthly amount, and to other financial claims of the taxpayer.
- 3) Decision on collection of fiscal duty from monetary funds is passed by the field office in which the fiscal duty was assessed or which is responsible for collection of fiscal duty.
- 4) Decision referred to in the paragraph 3 of this article shall be delivered by the tax authority to the provider of payment services with which the taxpayer holds an account. Copy of the decision is delivered to the taxpayer.
- 5) Provider of payment services shall stop the transfer of monetary funds through account, in the manner prescribed in the article 61 of this law, from the moment when the tax decision has been delivered until the moment when the decision on collection of fiscal duty from the monetary funds ceases to be valid in accordance with the paragraph 8 of this Article.
- 6) Decision on collection of fiscal duty from the monetary funds is executed by the provider of payment services within 3 working days from the day of delivery of the decision. In case if there are no monetary funds available on the account of taxpayer on the date of

the delivery of tax decision, decision shall be executed within one working day after the receipt of the monetary funds.

- 7) If the collection is carried out by stopping of the transfer of monetary funds from salaries, pensions and other financial claims, tax decision is delivered to the payer of these earnings, who than is obligated to stop the transfer of the monetary funds from the first monthly payment.
- 8) The decision on collection of fiscal duties from the taxpayer's monetary funds shall enter in force on the day when the decision had been delivered and shall remain in force until:
  1. The payment of the fiscal duty;
  2. Annulment of the fiscal decision;
- 9) The field branch of the Tax authority shall inform the provider of payment services and the taxpayer within 2 working days as of the day when the decision referred to in paragraph 3 of this article has ceased to be in force.

### **Collection of Fiscal Duties from the Property**

#### **Article 63.**

- 1) Collection of fiscal duties from taxpayer's property may be executed after the expiry of a ten- day term commencing on the day when the decision on payment had been delivered to the taxpayer.
- 2) Notwithstanding the provisions of clause 1, fiscal duty shall be collected from the property of the taxpayer before the expiry of ten- day term in cases when the field branch that had adopted decision on payment of fiscal duty has determined there is a danger that fiscal duty might not be paid.
- 3) Collection of fiscal duties from tax payer's property shall consist of capture and sale of tax payer's property (movable property and real estate), as well as the use of the funds collected through sale or other procedures for purposes of collection of fiscal duties.
- 4) The taxpayer's property that may be captured and sold shall include taxpayer's property and property rights, regardless of whether taxpayer or other persons holds the property in their possession, including taxpayer's monetary funds and its claims from the third parties.
- 5) The decision on collection of fiscal duties from the taxpayer's property shall be adopted by the field branch that had assessed the duties or the branch that is responsible for collection of duties.
- 6) The decision shall be delivered to the taxpayer whose property shall be captured, or to another person who possesses the taxpayer's property or is indebted to the tax payer on some other basis or to the person that is paying out salaries, retirement pensions or other financial claims of the taxpayer.

#### **Article 64.**

- 1) An authorized official shall perform the capture in the presence of two witnesses. The taxpayer shall be entitled to be present during the capture proceedings.
- 2) The capture consists of making an inventory and estimation of the value of the property.
- 3) Any person that possesses property that shall be captured shall be obliged to surrender that property or pay the sum to the authorized official at his/her request.

- 4) In cases when a particular person possesses taxpayer's property that shall be subjected to capture, that property may be captured on basis of a court order passed in the executive procedure.
- 5) For the purpose of passing the order referred to in paragraph 4 this article Tax authority shall submit to court request and evidence on the existence of a fiscal debt, evidence that the person possesses cash or other funds from which tax could be collected and an evidence that the first attempt of collection was not successful.
- 6) The capture proceedings shall last until the fiscal duty has been paid, or the decision has been annulled, or until the expiry of the term prescribed for in article 83 of this Act.

Article 65.

- 1) The property of the taxpayer is inventoried in following order:
  1. cash money
  2. funds on the account
  3. bonds from loan or other securities if they are mature to be paid, or may be discounted;
  4. jewels and other precious objects;
  5. other movable property, cattle, and goods or materials which may be easily sold for money.
- 2) If the payment could not have been done from the funds referred to in the paragraph 1 of this Article for enforced collection, means of work shall also be inventoried (tools, machines, appliances etc.).

Article 66.

- 1) Authorized official shall draw up minutes of the capture proceedings that took place that contains:
  1. Title of the tax authority and the name of the authorized official who is in charge of the collection procedure;
  2. First and last name, the place of residence, or place of business of the taxpayer, fiscal identification number and data on other persons that had been present during the capture proceeding;
  3. The time and place of the capture;
  4. The sum of the debt, interest and cost for which the capture is conducted;
  5. Precise label and description of the captured property;
  6. Value of the captured property, as assessed during the proceedings;
  7. First and last name, address or the place of business of the person to whom the captured property had been deposited for safekeeping;
  8. Statement that the debtor and the depository had been warned about the consequences of alienation or damaging of the captured property;
  9. Objection of taxpayer and other persons in the estimation and capture procedure to the official that had estimated the property, to the estimated sum or other objections or the objections of other persons.
- 2) In cases when the presence of police has been necessary, that presence shall be recorded in minutes.
- 3) The minutes shall be signed by the authorized official in charge on conducting of the procedure, taxpayer, taxpayer's mandatory, or authorized person, or member of his household, mandatory or authorized person of legal entity that is a debtor, witnesses, persons assessing the property and other officials that were present during capture proceedings.
- 4) In cases when taxpayer or taxpayer's mandatory or authorized person, or authorized person's representative, or representative of legal entity that is debtor refuses to sign the minutes, a note about that shall be entered into the minutes.



- 5) One copy of the minutes shall be delivered to the taxpayer and a copy shall be delivered to each person whose property had been captured.

Article 67.

- 1) Authorized official shall be obliged to inform all persons owning the inventoried property or part of that property that they may lodge *the complaint of the interested third party* with the competent court, for the purpose of proving the ownership of respective property, within 8 days from the date of receipt of the information. .
- 2) The authorized official shall provide the information referred to in paragraph 1 of this article orally if those persons were present when the inventory was made and that would be entered into the minutes whereas the absent persons shall be informed in a written form.
- 3) If the informed persons referred to in paragraph 2 of this article prove that they have lodged the *interested third party appeal* with the court within 8 days, the collection procedure in respect to assets covered by the *interested third party appeal* shall be stopped.

Article 68.

- 1) The *interested third party appeal* lodged in due time shall postpone the capture and sale of the movable property for which an inventory was made and that was covered by the appeal until the completion of a case. Until the completion of the case the property shall be deposited to the taxpayer for safekeeping.
- 2) The taxpayer shall be obliged to keep the property referred to in paragraph 1 of this article in an unaltered state until the completion of a case initiated by the interested third party appeal.

Article 69.

- 1) If it is determined that a person who lodged the interested third party appeal is not an owner of the property, and if the taxpayer alienates, destroys or damages property, a criminal complaint shall be lodged to the competent public prosecutor.
- 2) In case referred to in paragraph 1 of this article for the purpose of securing payment of the debt a new inventory and assessment of the property shall be made without any delays and adoption of a specific decision on collection.

Article 70.

- 1) The Tax authority shall be held responsible for all captured property. In cases of capture of monetary funds the tax authority shall deposit them to the appropriate account of the budget within one working day after the capture.
- 2) The field branch that had captured the property shall advertise the sale of aforementioned property within 15 days as of the day of capture in the media and on field branch's advertisement board.
- 3) The property shall be sold after the expiry of 10 days term, starting on the day of publishing the advertisement.
- 4) The officials of the Tax authority, spouses, ancestors and descendants of the officials, and the ancestors and descendants of officials' spouses shall not be entitled to participate directly or indirectly in the sale of property.

- 5) Taxpayer whose property, except cash, had been captured in accordance with the provisions of this Act shall be entitled to pay fiscal duty and costs of capture prior to the sale of captured property. The field branch of the Tax authority shall be obliged to return the captured property to the tax payer in a five working days term commencing on the day when the duties had been settled.
- 6) In cases when the captured property is perishable or when the Tax authority considers that there are exceptionally important circumstances that would justify sale without any delay, the sale may be executed in a term shorter than the term prescribed for in clause 3 of this article.
- 7) The funds realized though sale of taxpayer's captured property shall be used for the settlement of duties in the following order:
  1. The costs of capture and sale;
  2. Interests;
  3. Penalties;
  4. Fiscal duties.
- 8) The fiscal duties referred to in paragraph 7, subparagraph 4 of this article shall be paid in the following order: property tax, deducted tax and other taxes.
- 9) The funds received though the sale of tax payer's captured property for the purpose of paying the tax duty shall be transferred to the appropriate account of the budget no later than one working day after the sale.
- 10) The Ministry of Finance shall prescribe the procedure and method of public sale in greater detail in a particular regulation.

**Authority of the Tax Authority to Authorize the Extension of the Term for Payment of Fiscal Duties**

Article 71.

- 1) The director of the Tax authority shall be entitled to extend the term in which the fiscal duty should be paid at the proposal of the authorized official in charge of fiscal procedure solely if that would make the collection of fiscal duty easier.
- 2) In cases of extension of term prescribed for by the clause 1 of this article the taxpayer is obligated to present guarantee for payment of the fiscal duty.
- 3) An interest shall be paid during the period of extension of term for payment of fiscal duties, in accordance with the provisions of this Act. The Tax authority shall adopt a conclusion about the extension of the term for payment of fiscal duty.
- 4) The party shall not be entitled to submit an appeal against the aforementioned conclusion.

Authority of the Tax authority to Stop or Suspend the Collection of Certain Uncollected Tax Debts

Article 72.

- 1) The Tax authority shall interrupt the procedure of collection in cases when it had determined that tax debt is litigious or not collectible, either because taxpayer has no property or because further procedure wouldn't be economical.
- 2) The procedure referred to in paragraph 1 of this article shall be continued as soon as the litigious matters have been solved.

## **XI Inspection Control**

### **General Provisions**

Article 73.

Inspection control is a procedure of controlling and determining facts relevant for assessing the tax obligation for the taxpayer and other persons that is conducted by a tax authority in accordance with authorization contained in the Law regulating the specific types of taxes.

### **Subject of the Inspection Control**

Article 74.

- 1) The inspection control shall include control of some or all fact relevant for taxation.
- 2) The inspection control shall include the control of one or several types of taxes for one or more taxation periods.
- 3) The inspection control may include also facts that are not related to the business activity of the entrepreneur when he is a subject to the control.
- 4) The inspection control of association of capital or association of persons shall include also control of relations between the owner of the association and associations relevant for taxation.

### **Period of Inspection Control**

Article 75.

- 1) The inspection control can be performed for a period during which the right to assess the tax obligation has not expired.
- 2) The inspection control of large taxpayers shall be continued from the last taxation period that was subject of previous inspection controls.
- 3) A large taxpayer, for the purpose of this Act, is a taxpayer whose annual tax obligation for all types of taxes exceeds the amount of 250,000 Euros.
- 4) The inspection control shall include the last tax year for which a tax declaration had been submitted.
- 5) The same taxpayer can not be controlled for the same type of tax and for the same period of time more than once a year.

- 6) Notwithstanding the paragraph 5 of this article, the inspection control can be extended to include also the previous period if certain facts that are determined are indicating that the amount of a tax duty could be altered in case that the control is conducted.

### **Order for Inspection Control**

#### **Article 76.**

- 1) The field branch shall determine the subject and period of the inspection control by virtue of an order for inspection control (hereinafter: the order).
- 2) The order shall be made in a written form and in addition to data referred to in Article 21 of this Act it shall state the period within which the control is to be performed, the type of tax, place and time of control's commencement and names of the officials authorized for conduct of the control, invitation for the taxpayer to participate in the procedure and an advise on the right to lodge a complaint.

#### **Article 77.**

- 1) The order shall be delivered to:
  1. the large taxpayer 30 days before the initiation of the control;
  2. other taxpayers 15 days before the initiation of the control.
- 2) Notwithstanding the paragraph 1 of this article, in case when the delivery made in the term referred to in paragraph 1 of this article would make fulfillment of the control's purpose more difficult the order shall be delivered to the taxpayer directly before the commencement of the control.
- 3) The field branch may postpone commencement of the control if a taxpayer submits a complaint within 3 days as of the day when the order was received and states justified reasons to postpone the control except in cases referred to in paragraph 2 of this article.
- 4) The field branch shall decide on the complaint in the form of a conclusion that can not be subject to the appeal procedure.

### **Course of the inspection control**

#### **Article 78.**

- 1) Official authorized for the conduct of the control procedure shall introduce himself to the taxpayer and present his official identity card before commencement of the inspection control.
- 2) The taxpayer has the right to lodge a complaint to the field branch that issued the order if the taxpayer considers that the inspection control is not conducted in accordance with the order. The head of the field branch shall be obliged to pass a decision on the complaint and to deliver it to the taxpayer within one-day time.
- 3) The decision on complaint shall be passed in the form of a conclusion against which the appeal is not permitted.

### **Methods and Place where the Inspection Control is Conducted**

#### **Article 79.**

Methods of the inspection control are control of the tax declaration, office control and field control.

### **Control of the Tax Declaration**

#### Article 80.

- 1) Tax declarations shall be controlled in the premises of the field branch where the taxpayer had been registered.
- 2) The control of the tax declaration is control of accuracy and completeness of the tax declaration and its accompanying documents. The tax authority shall use all available information at its disposal as well as other during the control of the tax declaration.
- 3) Authorized officials shall control the tax declaration *ex officio*. The head of the field branch may authorize the taxpayer's presence during the control of the tax declaration.
- 4) If it is determined during the control that the tax declaration is incomplete or filled incorrectly the authorized official shall fill in the tax declaration or eliminate shortcomings on the basis of the submitted documentation. If it is determined that the tax declaration and the accompanying documentation are incorrect the authorized official shall deliver the tax declaration with documentation to the authorized official responsible for the official control.
- 5) The authorized official shall pass a conclusion on the delivery of the tax declaration with documentation against which an appeal can not be lodged.

### **Office Control**

#### Article 81.

- 1) The office control shall be conducted in the premises of the field branch where the taxpayer is registered.
- 2) During the conduct of the control the authorized official shall use data from the tax declaration, documentation accompanying the tax declaration, documentation and statements made by the taxpayer as well as data collected by the tax authority.
- 3) The tax authority may invite the taxpayer to take part in the office control.

### **Field control**

#### Article 82.

- 1) The field control is conducted in the premises of the taxpayer or on another location specified by the head of a field branch conducting the field control.
- 2) During the conduct of the control the authorized official shall use data from the tax declaration, documentation and taxpayer's statement, documentation and data collected by the tax authority.
- 3) The field control shall last up to 90 working days. The head of the field branch may exceptionally extend the deadline.

**Evidence Based on Indications**

Article 83.

- 1) The authorized official may use in addition to evidence referred to in article 81 and article 82 of this Act indication for assessment of the tax obligation that may serve as evidence.
- 2) Indications for the purpose of paragraph 1 of this article are certain signs, data or information that could be used by the tax authority while determining the tax duty for all types of taxes.
- 3) Indications referred to in paragraph 2 of this article shall include:
  1. type and nature of the taxpayer's business activity,
  2. transfer of funds through the taxpayer's account in bank or another financial institution and the amount of the funds on those accounts,
  3. ratio between the taxpayer's expenditures and revenues,
  4. Property of the taxpayer acquired or used for personal use and other evidence of property including apartments, houses, business premises, motor cars, means of labor, club membership, number of attendants and other.
  5. analysis of changes in the value of the taxpayer's property,
  6. the amount of the rental fee for immovable property where the taxpayer works or lives,
  7. the amount of capital in the taxpayer's company,
  8. taxpayer's total turnover,
  9. number of taxpayer's employees,
  10. type and number of taxpayer's business clients,
  11. profit or income of other persons conducting a similar or identical activity as a taxpayer under the same or similar conditions,
  12. difference between purchased raw materials and other materials and those that have been actually used in the production,
  13. all other evidence that could serve for determination of the amount of the tax duty.

**Time for the Inspection Control**

Article 84.

- 1) The inspection control shall be conducted during the working hours of the taxpayer and exceptionally after the expiry of the working hours if that is imposed by purpose of the control.
- 2) If an action commenced in the procedure of inspection control can not be completed during the taxpayer's working hours and the taxpayer does not agree with continuation of the control after the expiry of the working hours the tax authority may seal the business premises or the warehouse temporarily.
- 3) Measure of temporary sealing referred to in paragraph 2 of this article can last until the beginning of the taxpayer's working hours in the first working day. A conclusion shall be passed on the temporary measure referred to in paragraph 2 of this article against which an appeal is not permitted.

Article 85.

- 1) The tax payer shall be obliged to participate upon the request of the authorized official in determining facts relevant for taxation for the purpose of providing information, presentation of books and records and other documents in addition to obligations referred to in article 26 of this Act in the procedure of inspection control.
- 2) If the taxpayer is not capable to be present during the control the tax authority may request from the authorized official to appoint another person that will provide information.

The authorized official may also request information from other person employed with the taxpayer or the third persons.

### **Minutes on Inspection Control**

#### Article 86.

- 1) The minutes shall be taken on the course of inspection control.
- 2) The minutes referred to in paragraph 1 of this article shall contain in addition to data referred to in article 17 of this act place, date and time of the control, description of acts, facts and evidence that are used in the procedure and other data on the course and result of the control in particular facts relevant for the change of tax obligation and consolidated amount of the determined changes of tax obligations.
- 3) The taxpayer shall be entitled to lodge a complaint against the minutes on the inspection control in accordance with article 20 paragraph 2 of this Act. The authorized official shall reconsider the complaint and act in accordance with article 20 paragraph 2.
- 4) If the complaint contains new facts and evidence because of which the facts determined in the minutes or previous legal estimations should be changed the tax authority shall make additional minutes on such new facts and evidence or new legal estimations. An appeal can not be lodged against the additional minutes.

### **Measures of the Inspection Control**

#### **Article 87.**

In case when it is determined during the inspection control that this act or another tax regulation was violated the authorized official shall be obliged and authorized to order the following measures:

1. Delivery of the necessary documentation and data;
2. Temporary seizure of documentation, equipment and means of labor;
3. Forceful opening and closure of premises for the purpose of conducting the inspection control;
4. Prohibition to dispose with funds on the account;
5. Prohibition to conduct activity or certain jobs for the certain period of time;
6. Temporary abstraction of unlawfully acquired gain;
7. Temporary seizure of raw materials, reproduction material, semi products, final products and goods when there are no proves on the way that the goods were procured, when goods are placed in circulation by a non registered person or when there are no proves as to the goods' origin, when the goods are traded without the appropriate mark, when the goods are transported without the appropriate documentation and when the goods are sold outside the principal place of business or another place determined by a competent state authority;
8. To report the criminal offence or economic infraction to the competent authority or to submit the request for initiation of the offence procedure;
9. To pronounce the on spot fine;
10. To undertake other measures for which is authorized by virtue of the act and other tax regulations.

#### **Article 88.**

- 1) When the authorized official orders the measure of seizing the objects of control that may serve as evidence or are used, intended or produced as a result of illegal acts he/she shall be obliged to determine the place and method of keeping those objects.
- 2) The person entrusted with keeping the objects referred to in paragraph 1 of this article shall be obliged to take over those objects and keep them until the final decision on the authorized official's report or request is passed and issue a certificate to the authorized official on objects that were taken over.

#### **Article 89.**

- 1) In cases when the seized objects referred to in article 85 of this act are perishable or if its keeping causes high expenses the authorized official in charge of the control may decide to have object sold with consent of the head of the branch office.
- 2) The authorized official responsible for collection shall sell the object referred to in paragraph 1 of this article under the procedure and in terms prescribed for by article 70 of this act so that the sale referred to in paragraph 1 of this article is executed immediately through advertisement or public sale.

#### **Article 90.**

- 1) 1) The authorized official shall order the measures referred to in article 99 of this act in the form of a decision.
- 2) Notwithstanding paragraph 1 of this article, the authorized official may order the measures referred to in article 87 of this act in the minutes on control or oral decision



when he/she considers that in such a way the bigger damage would be prevented and when that is in a public interest.

- 3) The authorized person that acted in accordance with paragraph 2 of this article shall be obliged to pass a decision in a written form within 3 days time.
- 4) The authorized official shall pass the decision referred to in paragraph 1 of this article on the basis of facts determined in the minutes and additional minutes on inspection control.
- 5) The decision referred to in paragraph 1 of this article shall contain in addition to data referred to in article 54 of this act the term for execution of the measure determined by the authorized official that passes a decision.

#### Article 91.

In case when new facts or circumstances that are determined in the course of the control and that are indicating that the taxpayer is to pay a higher tax duty the branch office shall submit a new tax declaration and assess tax in accordance with article 52 and 53 on the basis of the minutes on inspection control.

#### Article 92.

The tax authority shall prescribe closer the method and procedure of the inspection control by virtue of a methodological instruction.

### **XII Criminal charges**

#### Article 93.

In case when facts and circumstances that are revealed in the course of the inspection procedure or in any other method are indicating that a criminal offence, economic infraction or offence or any other illegal tax act was committed, the tax authority shall examine those facts and circumstances in the presence of a competent authority and bring a criminal charge or request for initiation of the procedure for violations, before the competent authority if that is justified.

#### Article 94.

- 1) The procedure initiated by the authorized official's request and criminal charge referred to in article 93 of this act shall be an urgent one.
- 2) The competent authorities shall be obliged to take into consideration on the authorized officials request or criminal charge within 3 days as of the day when the request or charge was brought.
- 3) The competent authority to which the criminal charge or request for initiation of the procedure was brought shall be obliged to inform the head of the branch office and director of the tax authority about the result of the procedure within 8 days as of the day when the decision on the authorized official's request or criminal charge was passed.

### **XIII Interest**

#### Article 95.

- 1) In cases when taxpayer fails to pay tax duties or penalties within term, the taxpayer shall be obliged to pay interest on that sum. The interest shall be calculated at the interest rate that is paid for savings on sight.

- 2) The interest shall be calculated daily and rating shall be performed each year on January 1<sup>st</sup> and July 1<sup>st</sup>.

### **Interest on Overpayment of Fiscal Duties**

#### **Article 96.**

The taxpayer shall be entitled to interest on the sum of overpaid taxes at rates prescribed for by article 95 of this Act. The taxpayer shall be entitled to the interest from the day when a request for reimbursement was submitted until the day of reimbursement.

#### **XIV Fiscal Deductions and Reimbursements**

##### **Article 97.**

- 1) In cases when taxpayer had paid an amount exceeding the sum of fiscal duty, the Tax authority shall be obliged to set off the sum of overpayment, with appropriate interests, against future fiscal duties, or reimburse it to tax payer in accordance with provisions of this Act.
- 2) The field branch of the Tax authority where tax payer who had overpaid fiscal duties is registered shall be obliged to inform the tax payer about the overpayment in twenty days term commencing on the day when overpayment had been discovered. Information on overpayment shall especially contain the following data: Sum of overpayment, the sum of overpayment that shall be automatically deducted from future fiscal duties and the sum of overpayment that is available for deduction from future duties or for reimbursements to tax payer.

#### **Fiscal Deductions in Cases of Overpayment of Fiscal Duties**

##### **Article 98.**

- 1) The sum of overpayment shall be automatically deducted from another fiscal duty of the same taxpayer if the entire fiscal duty is settled in that manner.
- 2) In cases when other fiscal duties of the taxpayer exceed the sum of overpayment, the overpayment shall be used for payment of fiscal duties proportionally and in order prescribed for in paragraphs 3 and 4 of article 51 of this Act.
- 3) It shall be considered that the sum of overpayment that has been automatically deducted as prescribed for in the clause 1 of this article had been paid on the day when the overpayment had come into existence.

#### **The Choice between Fiscal Deductions and Reimbursements**

##### **Article 99.**

- 1) In cases when sum of overpayment exceeds the sum that's automatically deducted under the provisions of article 98 of this Act, tax payer shall be entitled to request the Tax authority to direct surplus overpayment into settlement of future fiscal duties or to reimburse it to tax payer.
- 2) The Tax authority shall be obliged to reimburse the surplus overpayment to the tax payer in a five working days term commencing on the day it had received tax payer's request for reimbursement.

#### **XV Prescriptions**

##### **Prescription of Right to Assessment of Taxes**

##### **Article 100.**

The right to assess taxes, penalties and interests of taxpayers, tax agents and other persons shall expire in the following terms:

1. The right to assess taxes shall expire after a five- year term commencing on the day when the tax declaration had been submitted or due for submitting, whichever date is later;
2. In cases of fiscal misdemeanors the right to assess penalties shall expire after a two- year term starting on the day when it has been found out that a misdemeanor had been committed. In cases of criminal fiscal offences, the right to assess penalties shall expire after a ten- year term starting on the day when it has been found out that a criminal offence had been committed;

### **Prescription of Right to Collect Taxes**

#### **Article 101.**

- 1) The right to collect fiscal duties shall expire:
  1. After expiry of the three- year term commencing on the day when the duties had been assessed;
  2. After the expiry of the extended term prescribed for in the article 71 of this Act.
- 2) Any official action or act of the Tax authority shall stop the prescription of right to collect fiscal duties.
- 3) Prescription shall not pass by while the judicial collection procedure lasts and during the time when the natural person that is a taxpayer has been absent from the Republic non- stopping in a period longer than six months.
- 4) In cases when bankruptcy or liquidation proceedings had been initiated against taxpayer, the prescription term prescribed for in clause 1 of this article shall be extended for an additional six months term, commencing on the day when these proceedings had ended.
- 5) In cases when an extension of the term for settlement of fiscal duties had been granted to the taxpayer, the term for collection of these fiscal duties shall be extended for the same time period as the term for settlement.

### **Prescription of Right to Fiscal Deductions and Reimbursements**

#### **Article 102.**

The taxpayer shall be obliged to submit requests for deduction from future fiscal duties or reimbursement of overpaid fiscal duties prescribed for in article 99 of this Act in a three- year term starting on the day of overpayment.

### **Absolute Term for Prescription**

#### **Article 103.**

The right to assessment, collection and drawback shall always expire within 10 years term as of the expiry of the year for which the tax should have been assessed, collected or in which the tax duty was paid.

## **XVI Rules of Conduct**

### **Article 104.**

In order to establish just and exact standards of ethical behavior, ensure that each citizen has confidence in integrity of all employees of Tax authority and prevent conflict of interests, director of the tax authority shall prescribe for the rules of procedure and manners of officials of the tax authority with a consent of the Minister of Finance.

## **XVII Penal Provisions**

### **Fiscal Offences**

### **Article 105.**

- 1) The taxpayer – legal person that failed to cooperate with the Tax authority during implementation and execution of fiscal legislation shall be fined for fiscal infraction with the sum equal to tenfold to threehundredfold amount of minimum salary in the Republic in following cases:
  1. if it fails to submit tax declaration to the competent fiscal organ for purposes of registration, or failed to report every change of data entered into the registry (art. 29 and 33)
  2. if it fails to submit tax declaration to the competent fiscal organ in the form and in terms prescribed for by the fiscal legislation for each type of tax (Article 36)
  3. if it fails to submit informative declaration or report on payment of withholding tax to the tax authority within terms and in the manner prescribed by this law (article s 39 and 40).
- 2) For the fiscal infraction referred to in the paragraph 1 of this article physical person and authorized person in the legal person shall be fined by the sum amounting to enfold to tenfold amount of minimum salary in the Republic.
- 3) For the fiscal infraction referred to in the paragraph 1 point 2 of this article professional person who filled the tax return or part thereof shall be fined by the sum amounting to one half to fivefold amount of minimum salary in the Republic.

### **Article 106.**

- 1) Taxpayer, which is a legal person or entrepreneur shall be punished by fine in the sum of onefold to tenfold amount of unpaid fiscal duty, if it fails to pay fiscal duty within term and in the manner prescribed by tax legislation (articles 42, 50, 51, and 55).
- 2) For fiscal infractions referred to in the paragraph 1 of this Article authorized person in legal entity, tax agent and physical person shall be fined by the sum equal to the onefold to tenfold amount of minimum salary in the Republic.

### **Article 107.**

Physical person responsible for disposing with financial funds of the legal entity shall be punished for fiscal infraction by the fine in the sum of onefold to twentyfold amount of minimum salary in the Republic, if he/she executes the outstanding fiscal duties contrary to the order prescribed by the law (article 43).

Article 108.

Director of legal entity shall be punished by fine in the sum of onefold to twentyfold amount of minimum salary in the Republic, if he fails to withhold, transfer or pay in the tax liability at the time when this liability should have been paid (Article 45, paragraph 1).

Article 109.

- 1) Taxpayer shall be punished for fiscal infraction by fine in the sum of tenfold to threehundred fold amount of minimum salary in the Republic, in the case of:
  1. failure to keep books and records in the prescribed manner and failure to keep them in accordance with the law (article 26, paragraph 1 point 4);
  2. failure to inform tax authority within 5 days on opening or closing of the business or other account with the providers of payment services (article 26 paragraph 1 point 8);
- 2) For fiscal infractions referred to in the paragraph 1 of this article, authorized person in legal entity shall be punished by fine in the sum of onefold to twentyfold amount of salary in the Republic.

Article 110.

For fiscal infractions referred to 105, 106, 108, 109 of this law, entrepreneur, authorized person in legal entity or physical person may be punished by the on spot fine in the sum of threefold amount of minimum salary in the Republic, if the irregularity in their conducting of business had been eliminated before the control took place.

Article 111.

- 1) In case if the authorized official in the procedure of control on the ground of fiscal infraction undertakes against the taxpayer the measure of temporary prohibition of conducting of business activity, capture of objects, equipment and means of work or abstraction of the unlawfully acquired gain, taxpayer shall additionally be punished by fine amounting to 500 Eurasia.
- 2) Besides measures and fine referred to in the paragraph 1 of this article, taxpayer may be imposed the protective measure of prohibition of conducting of business activity, capture of objects, equipment, monetary funds and means of work (Article 87, paragraph 1, points 2,5,6 and7)

## **XVIII The Final and Transitional Provisions**

Article 112.

Regulations for implementation of this Act shall be passed within the 6 months period from the date of its entry into force.

Article 113.

If the procedure for exercise of the taxpayer's right is initiated shall be completed in accordance with the provisions of the current law if that is more favorable for the taxpayer.

Article 114.

Once this Act has entered in force, the following act shall cease to be in force:

1. Public Revenues Act, "The Official Gazette of the Republic of Montenegro" No. 3 / 92, 3 / 94, 42 / 94, 13 / 96 and 45 / 98;

Article 115.

Once this Act comes into force the provisions of following laws shall cease to be valid, in the part which relates to tax procedure:

1. 1.Citizens Income Tax Act, "The Official Gazette of the Republic of Montenegro" No. 30 / 93, 3 / 94, 13 / 94, 42 / 94, 1/95, 13/96 and 45 / 98;
2. Tax on Company Profits Act, "The Official Gazette of the Republic of Montenegro" No. 3 / 92, 30 / 93, 3 / 94, 42 / 94 and 45 / 98;
3. Taxes on Property Act, "The Official Gazette of the Republic of Montenegro" No. 3 / 92, 30 / 93, 3 / 94, 42 / 94, 20 / 95 and 22 / 95;
4. Turnover Tax Act, "The Official Gazette of the Republic of Montenegro" No. 4 / 94, 13 / 94, 42 / 94, 13 / 96 and 45 / 98;
5. Social Insurance Contributions Act, "The Official Gazette of the Republic of Montenegro" No. 23 / 93, 3 / 94, 42 / 94, 13 / 96 and 45 / 98;
6. System of Public Revenues Act, "The Official Gazette of the Republic of Montenegro" No. 31 / 93, 3 / 94, 42 / 94, 13 / 96 and 45 / 98;

Article 116.

This Act shall enter into force on the eight day after its publication in "The Official Gazette of the Republic of Montenegro" and it shall be applied as of the January 1<sup>st</sup> 2002.

## Appendix 5

Based on Article 88 Item 2 of the Constitution of the Republic of Montenegro, I enact

### DECREE

#### ON PROCLAMATION OF LAW ON LOCAL GOVERNMENT FINANCE

I proclaim the Law on Local Government Finance that was enacted by the Parliament of Republic of Montenegro on the second session of the first regular sessional in year 2003, on July 9<sup>th</sup> 2003.

Number: 01-451/2  
Podgorica, July 10<sup>th</sup> 2003.

President of the Republic of Montenegro,  
Filip Vujanovic

### ***LAW ON LOCAL GOVERNMENT FINANCE***

#### I GENERAL PROVISIONS

##### Article 1

This Law defines financial resources, ways of financial equalization, utilization of conditional grants and ways of financing own activities of a local government (hereinafter referred to as: municipality) determined by the Constitution, law and other regulations.

The provisions of this Law are referred on financing of the capital city and the old royal capital.

##### Article 2

- (1) Funds for financing own activities of a municipality shall be provided in the municipal budget.
- (2) The municipality shall manage the funds from the Paragraph 1 of this Article independently.

##### Article 3

The funds for performing tasks devolved and delegated to a municipality shall be provided from the state budget, in compliance with regulations on devolving, i.e. delegating tasks.

#### II FINANCIAL RESOURCES

##### Article 4

Municipalities shall collect revenues from their own resources, from joint taxes, fees, and from the Republic budget grants (hereinafter referred to as: the Republic).



## **1. Own resources**

### Article 5

A municipality's own revenue resources shall be:

1. Municipal taxes, in compliance with this Law;
2. Inheritance and gift tax, in compliance with the specific law;
3. Tax on games of chance, in compliance with the specific law;
4. Residential fee, in compliance with the specific law;
5. Local administrative fees, in compliance with the specific law;
6. Local communal fees, in compliance with the specific law;
7. Fees for using construction land and fees for construction land improvement, in compliance with the specific law;
8. Fees for protection and improvement of environment, in compliance with the specific law;
9. Revenues from property owned by a municipality and revenues from property titles;
10. Revenues from companies and other legal entities owned by a municipality, i.e. that the municipality is a shareholder of;
11. Fines pronounced in a petty offence proceedings, as well as property confiscated in that proceedings;
12. Revenues from concession fees for performing communal activities and revenues from other concession activities that a municipality concludes in compliance with law;
13. Revenues collected by municipal agencies, services, and organizations through their own activities;
14. Revenues from interests on municipal deposits;
15. Self-imposed contribution introduced for the territory of a municipality;
16. Revenues from grants and subsidies; and
17. Other revenues set by the law.

## **1. Municipal taxes**

### Article 6

Municipalities may introduce the following taxes

1. Surtax on physical person income tax;
2. Real estate tax;
3. Consumption tax (Beverage tax)
4. Tax on vacant construction plots;
5. Tax on company or title.

#### Surtax on physical person income tax

### Article 7

(1) A municipality may introduce the obligation of paying surtax on physical person income tax at the rate up to 13% for the taxpayers of the physical person income tax from its territory.

(2) Surtax on physical person income tax shall be paid on personal earnings tax, self-employment tax, property income and property title income tax, and capital gains tax.

(3) Exceptionally from Paragraph 1 of this Article, surtax rate on physical person income tax for the Administrative Capital and the Old Royal Capital may amount up to 15% of the tax liability from Paragraph 2 of this Article.

#### Article 8

(1) Surtax on physical person income tax shall be paid by rate that a municipality determines by its own decision.

(2) In relation to calculating and paying surtax on physical person income tax, provisions from the law that regulates physical person income tax shall be accordingly implemented.

(3) Legal and physical persons, banks and other financial entities shall be obliged, at the request of a competent municipal taxation authority, to deliver data, or allow insight into their financial documents and other records for the purpose of ensuring control of tax calculation and payment.

#### Real estate tax

#### Article 9

- (1) Real estate tax shall be paid by legal and physical entities, i.e. owners of real estate;
- (2) Real Estate from Paragraph 1 of this Article are land, buildings, residential and business units of buildings and other building structures;
- (3) Revenues from Paragraph 1 of this Article shall belong to the budget of municipality the real estate is located on.

#### Article 10

Real estate tax base shall be the market value of the real estate on the January 1, of the year for which the tax is determined.

#### Article 11

- (1) Real estate tax rate shall be proportional and it may range from 0.08% to 0.80% of the real estate market value;
- (2) A municipality may determine the real estate tax rate according to the type of real estate;
- (3) In relation to calculating and paying the real estate tax, provisions of the law that regulates real estate tax shall be implemented.

#### Consumption tax (Beverage tax)

#### Article 12

(1) Consumption tax (Beverage tax) shall be paid on consumption of alcoholic and non-alcoholic beverages in catering establishments;

(2) Non-alcoholic beverages from Paragraph 1 of this Article are natural fruit juices, as well as all refreshing fizzy non-alcoholic beverages, mineral and sparkling water, with the exception of coffee and tea.

#### Article 13

A consumption taxpayer shall be a legal or physical entity that provides catering services.

#### Article 14

Consumption tax base shall consist of the selling price of beverages sold in an eating or drinking establishment that does not include the value added tax and the consumption tax.

#### Article 15

(1) The consumption tax rate shall be determined by a municipality and it cannot exceed 3% of the base that the consumption tax is paid on.

(2) Exceptionally from Paragraph 1 of this Article, the rate of the consumption tax for the Administrative Capital and the Old Royal Capital may amount up to 5%.

#### Article 16

(1) Calculated consumption tax shall be registered in records promulgated for calculating value added tax;

(2) In relation to calculating and paying the consumption tax and in relation to other issues, which are not specifically defined by this law, provision of the law that regulates value added tax shall be implemented.

#### Tax on vacant construction plots

#### Article 17

- (10) Tax on vacant construction plots shall be paid by legal and physical entities, i.e. owners of vacant construction plots.
- (11) Vacant construction plots from the Paragraph 1 of this Article are the plots within boundaries of a settlement's construction area where, in compliance with the physical plan, building structures may be built and where no building structure is built.
- (12) Vacant construction plot is also a plot with a temporary building structure, for construction of which no approval is required, as well as the plot with ruins of a former building.

#### Article 18

- (1) Tax base of the tax on vacant construction plots shall be the surface of the vacant construction plot expressed in m<sup>2</sup>.
- (2) Tax on vacant construction plots shall be paid annually, to the amount of 0.03 to 0.30 EUR per m<sup>2</sup> of vacant construction plot.

#### Article 19

A municipality, by means of its specific decision, shall determine the amount of the tax on vacant construction plots, depending on location, size, and other circumstances important for using vacant construction plots.

#### Article 20

Terms of calculating and paying the tax on vacant construction plots shall be determined by a municipality decision.

#### Article 21

- (1) Taxpayers of the tax on vacant construction plots shall have to submit the data on location and size of the vacant construction plot to the competent taxation authority.
- (2) Data from the Paragraph 1 of this Article shall be submitted by March 31 of the year for which the tax is determined.

Tax on company or title

Article 22

- (5) Taxpayers of the tax on company or title shall be legal and physical entities that are taxpayers of tax on profits of legal persons or physical person income tax and that are registered for performing certain activities.
- (6) Entities from the Paragraph 1 of this Article that within their organization have business units shall be obliged to pay the tax on company or title for each business unit.
- (7) Tax on company (title) shall be paid annually to the amount determined by a municipality and it cannot exceed 300 EUR per a company or title.

Article 23

Terms of calculating and paying the tax on company or title shall be determined by a municipality enactment.

**2. Revenues from self-imposed contribution**

Article 24

- (1) For the purposes of satisfying certain needs of citizens a municipality may introduce a self-imposed contribution.
- (2) A Decision of a municipality shall regulate the purpose, territory, and period for which self-imposed contribution would be introduced; total amount of funds being collected, a payer of self-imposed contribution, exempted individuals, amount of self-imposed contribution (base, proportional rate, etc.), ways of calculating and accomplishing citizens' supervision over categorical use of resources and other issues important for introducing self-imposed contribution.

**3. Joint revenues**

Article 25

- (1) Municipality shall receive revenues from joint taxes and fees introduced by the Republic.
- (2) Joint revenues from the Paragraph 1 of this Article shall be:
  - a. Revenues from physical person income tax;
  - b. Revenues from tax on real estate turnover;
  - c. Revenues from concession fees for using natural resources authorized by the Republic.

Revenues from personal income tax

Article 26

(1) 10% of revenues from physical person income tax collected at the territory of a municipality shall belong to the municipality.

(2) Exceptionally from Paragraph 1 of this Article, 15% of revenues from physical person income tax shall belong to the Old Royal Capital.

(3) Funds from Paragraph 1 of this Article shall be directly (through an authorized agent for payment operations) paid to the accounts of the municipal budget.

Revenues from tax on real estate turnover

Article 27

50% of revenues from the tax on real estate transfer collected at the territory of a municipality shall belong to the municipality.

Revenues from concession fees

Article 28

30% of concession fees for using natural resources of general interest collected at the territory of a municipality shall belong to the municipality.

**III. FINANCIAL EQUALIZATION OF MUNICIPALITIES**

**1. Equalization fund**

Article 29

- (1) Financial equalization, that is, balancing municipal finance shall be performed through the Equalization fund.
- (2) Means for Equalization fund shall be provided from the revenues from physical person income tax to the amount of 10% of those revenues.
- (3) Means from the Paragraph 2 of this Article, through an authorized agent for payment operations, shall be earmarked on a special account of the Equalization fund.
- (4) Means from the Equalization fund shall be used in form of equalization and incentive grants in relation 90%:10%.

Equalization grants

Article 30

The right to use means from the equalization fund in the form of equalization grants shall belong to each municipality whose revenues per capita from physical person income tax, value added tax (VAT), and the corporate income tax are lower than per capita average from these same resources for all municipalities.

Article 31

- (1) The Equalization grant means shall be used according to the following criteria:
  - a. Fiscal capacity index of each municipality;
  - b. Budget expenditure index of each municipality; and
  - c. Level of local infrastructure development.
- (2) The criteria from Paragraph 1 of this Article shall participate in allocation of equalization grant means according to the following proportion: 50%:40%:10%.
- (3) More detailed criteria for using the means for equalization grants and types of use shall be determined by the Local Government Finance Commission.

Article 32

- (1) The Local Government Finance Commission shall consist of seven members. Five of them shall be appointed by the association of Montenegrin municipalities, and one shall be appointed by Ministry of Finance and Ministry of Justice respectively.
- (2) The Commission from the Paragraph 1 of this Article shall have a mandate for four years of period of time.

(3) The funds for work of the Commission referred to in Paragraph 1 of this Article shall be provided from the Budget of the Republic.

(4) The procedure rulebook of the Local Government Finance Commission shall regulate issues important for its work.

(5) Any further expertise, for satisfying the needs of the Commission from Paragraph 1 of this Article, shall be performed by the Ministry of Finance.

#### Article 33

(1) Decision on the amount of the means that local governments may use from the Equalization fund shall be made by the Local Government Finance Commission no later than the end of September of the current year for the next year.

(2) Payment of the funds on the grounds of equalization grant shall be done on a monthly basis, by the fifth of the month for the previous month.

(3) The final calculation and allocation of means for equalization grants shall be performed on the expiry of a fiscal year, by July 31 of the current year for the previous year.

(4) The Decision from Paragraph 1 of this Article shall be published in the Official Gazette of the Republic of Montenegro.

### **3.3. Incentive grants**

#### Article 34

(1) The right to use incentive grants shall belong to a municipality that achieved increase in its own revenues for the current fiscal year compared to the previous fiscal year.

(2) Revenues from Paragraph 1 of this Article shall not include revenues from selling municipal property and fees for improving city construction land, also as revenues based on grants.

#### Article 35

(1) The amount of incentive grants per a municipality shall be determined in proportion to own revenues increase of each municipality within the total own revenues increase of all municipalities.

(2) Payment of the incentive grants funds throughout the year shall be performed by the fifth of the month for the previous month.

## IV. CONDITIONAL GRANTS FROM REPUBLIC BUDGET

#### Article 36

A municipality shall be entitled to use conditional grants from the Republic Budget for financing investment projects that are of special interest for one or several municipalities.

#### Article 37

(1) The right to use conditional grants from Article 36 of this Law shall belong to a municipality that has adopted capital investment plan.

(2) The capital investment plan defines capital requirements, that is, the list of all needs to achieve optimum level of public services and capital procurement (supplies and equipment), the priorities on environmental influence, budget influence, financial resources and the explanation for each project in the agenda.

(3) The Municipal Assembly adopts the capital improvement plan a period of five (5) years.

#### Article 38

- (1) A municipality may be given, in form of conditional grants, a maximum 50% of the funds envisaged for realization of an investment project.
- (2) The amount of conditional grants shall be determined depending on the level of realized revenues of a municipality per capita in relation to the average realized revenues of all municipalities:
  - a. If the revenues of a municipality per capita are lower than 50% in comparison to the average realized revenues of all municipalities, the municipality shall be eligible for the conditional grant to the amount of 50% of the value of the investment project.
  - b. If the revenues of a municipality per capita are 50%-70% in comparison to the average realized revenues of all municipalities, the municipality shall be eligible for the conditional grant to the amount of 30% of the value of the investment project.
  - c. If the revenues of a municipality per capita are 70%-90% in comparison to the average realized revenues of all municipalities, the municipality shall be eligible for the conditional grant to the amount of 20% of the value of the investment project.
  - d. If the revenues of a municipality per capita are higher than 90% in comparison to the average realized income of all municipalities, the municipality shall be eligible for the conditional grant to the amount of 10% of the value of the investment project.
- (3) Decision on granting conditional grants shall be made by the Government at the proposal of the Finance Minister.

## V. FORMS OF FINANCING MUNICIPALITIES

### 1. Budget

#### Article 39

- (1) Municipality shall have its own budget.
- (2) The Budget shall include all inflows that belong to a municipality and all the expenditures of its jurisdiction.

#### Article 40

- (1) The Municipal Budget shall be approved for the fiscal year that coincides with the calendar year.
- (2) The Municipal Budget states all inflows that belong to the municipality and all outflows under its scope of competence.
- (3) Budgetary expenditures shall be comprised of unpaid commitments plus expenditures for which a cash outlay has been made.
- (4) The budget shall register revenues according to sources, and expenditures according to spending units, functions, and economic purposes.

#### Article 41

1. Budget inflows and outflows shall balance out.
2. Municipal budget outflows uses may be financed from revenues and budgetary reserves, including short-term debt for expected revenues intended for satisfying short-term needs for liquidity.

#### Article 42

- (1) The budget decision proposal shall be defined by a Mayor who shall forward it to Assembly by the end of November of the year preceding the year for which the budget shall be enacted.

- (2) The Decision on budget shall specifically include:
  - a. Normative part that more closely defines its implementation;
  - b. Estimation of inflows and outflows stated according to organizational, economic and functional classification;
  - c. Outflows of spending units;
  - d. Use of surplus and making up for deficit
  - e. Current and permanent budget reserve.

#### Article 43

Along with budget decision proposal, the following shall be presented for inspection:

- Report on conducted budget public hearing;
- Review of revenues and expenditures for the previous fiscal year;
- Report on execution of the budget for nine months of the current fiscal year and estimate of execution of the budget for the remaining three months of the current fiscal year;
- Review of the planned revenues and expenditures for the following three fiscal years.

#### Article 44

- (1) The Budget shall have to be passed before the beginning of the year it refers to.
- (2) If the budget is not passed by the deadline from Paragraph 1 of this Article, a decision shall be brought on temporary financing for the period of no longer than three months.
- (3) Temporary financing from Paragraph 2 of this Article may be carried out to the amount that corresponds to 1/12 (one/twelfth) of realized expenditures in the previous fiscal year.
- (4) The Decision on temporary financing shall be made by the Municipal Assembly.

#### Article 45

In cases of planned revenues shortfalls or planned expenditures increase during a fiscal year, budget adjustment shall be performed in compliance with the procedure prescribed for its enactment.

#### Article 46

A municipality that received special-purpose funds from the Republic Budget shall keep the funds separate from its own funds and use them only for the purposes they have been provided for.

#### Article 47

In respect of preparing, planning, managing the budget and other issues not regulated by this law, regulations of the Budget Law.

### 2. Budget execution

#### Article 48

- (1) Upon the Budget enactment, local government authority competent for finance shall inform spending units about appropriated funds.
- (2) Budget funds shall be used for the purposes determined by special laws and regulations of municipalities.
- (3) All beneficiaries of the budget funds shall use the means for determined purposes economically and in compliance with the regulations on use, that is, on disposal of the means.



Article 49

- (1) During the year, budget funds shall be, as a rule, put at disposal to all bearers and users of those funds within the realized revenues and depending on liabilities due, if a law or an enactment of a municipality or a contract with a bearer or user of budget funds do not regulate otherwise.
- (2) Spending unit shall use the appropriated funds in compliance with the dynamism approved by a Mayor.

Article 50

- (1) If, due to uneven inflow of budget revenues, discharge of planned expenditures cannot be carried out, the following may be used to cover those expenditures: reserve funds and short-term loans within the limits provided for in this law.

Article 51

- (1) In the case of unforeseen circumstances that were unknown at the moment of passing the budget, executive body of a municipality may, on the basis of a spending unit's justified request, perform reallocation of spending units' funds for specific purposes, (by increasing or decreasing funds) and up to 5% of the funds allocated to that spending unit.
- (2) Spending units may, if approved by the Mayor of a municipality, reallocate granted funds for particular purposes up to the amount of 5% of funds provided for purposes whose amount they are to change.

Article 52

- (1) The Mayor shall be accountable for the budget execution.
- (2) The budget implementer shall be responsible for purposeful utilization of budget funds.

1. Budget reserves
  - a) Current budget reserves

Article 53

(1) Within the budget, a part of planned revenues shall not be allocated in advance, but kept for current budget reserve.

(2) Funds of the current budget reserve shall be used for unforeseen or insufficiently foreseen activities that are financed from the budget.

(3) Funds from the current budget reserve from Paragraph 1 of this Article shall be put at disposal of the Mayor in compliance with the Municipal Assembly decision.

(4) The Mayor may authorize a budget executor to manage the funds of the current budget reserve (up to a certain amount).

- b) Permanent budget reserves

Article 54

- (1) The Budget provides funds for a permanent budget reserve, which is presented as a separate item of the expenditures.
- (2) The permanent budget reserve shall be used for financing expenditures made for participation of municipalities in eliminating consequences of unexpected circumstances (droughts, fires, floods, environmental and other natural disasters) and other extraordinary events that can jeopardize lives and health of people and cause damage of large dimensions.

- (3) Permanent budget reserve may be used for temporary execution of budget liabilities created due to lower revenues.
- (4) No more than 2% of the total revenues in a budget year shall be allocated to the permanent budget reserve.
- (5) Revenues of the permanent budget reserve shall be made from transferred unused funds from the previous fiscal year and from allocating up to 2% of the revenues realized in the previous month of the current year.
- (6) Allocation from Paragraph 5 of this Article shall be carried out up to the point when the permanent budget reserve is provided with the amount equal to the maximum amount from Paragraph 4 of this Article.
- (7) If during the year the permanent budget reserve is reduced due to the reasons envisaged in the Paragraph 2 and 3 of this Article, allocation of 2% of monthly revenues realized in the previous month shall continue up to the maximum from Paragraph 4 of this Article.
- (8) Decision on utilization of the funds from the permanent budget reserves in individual cases, up to the amount of 10% of permanent budget reserve, shall be made by the Mayor, at the proposal of the administrative body in charge of the budget.
- (9) Report on utilization of the funds from permanent budget reserve shall be presented to Municipal Assembly.
- (10) The Municipal Assembly shall make decisions on utilization of the funds from the permanent budget reserve that is higher than the amount from Paragraph 8 of this Article.

## 2. Annual budget report

### Article 55

- (1) Upon the expiry of the year the budget is adopted for, the Assembly of a municipality shall adopt the annual budget report.
- (2) The annual budget report shall include:
  1. Balance sheet;
  2. Income statement;
  3. Report on capital expenditures and funding;
  4. Cash flow report;
  5. Report on execution of the budget, prepared in the way that shows the difference between appropriated and executed funds;
  6. Explanation of significant aberrations between appropriated funds and executed funds;
  7. Report on received domestic and international donations and loans, and executed debt repayments;
  8. Report on using current and permanent budget reserve funds;
  9. Report on guarantees issued during the fiscal year;
  10. External auditing report on financial reports (items 1-9) from this Paragraph;

### Article 56

(1) Proposal of the annual budget report shall be determined by the Mayor who shall submit it to the Assembly by the end of May of the current year.

(2) Proposal of the annual budget report shall be presented for insight to the Ministry of Finance within 30 days from the day of enactment.

### Article 57

Along with the annual budget report, the Municipal Assembly shall also be presented with the statement of profits and losses of public institutions and companies, permanent reserves and the balance of property dated on December 31 of the year the budget refers to.

### Article 58

Public companies and institutions established by the municipality shall submit for inspection their annual financial reports to the municipal body in charge for finances within 30 days after adopting their annual financial report.

11. Investment policy

Article 59

- (1) Municipalities shall implement their investment policy in compliance with good financial management practice.
- (2) A decision of a Municipality Assembly on investment policy shall define the availability of unused funds, types of securities where unused funds may be invested, investment diversification policy, quality of instruments the means are to be invested in, and other issues significant for investment policy.
- (3) The Mayor shall make the decision on investments, in compliance with the established investment policy and at the proposal of the body in charge of finances.

IV. BORROWING

Article 60

- (1) A municipality may borrow by issuing securities or taking loans.
- (2) Municipalities shall issue securities in compliance with the law.
- (3) Municipalities cannot borrow abroad, except according to the law.

Article 61

- (1) Municipalities may take short-term loans intended for satisfying short-term needs for liquidity.
- (2) Short-term loan, in compliance with Paragraph 1 of this Article, is any credit in which the principal repayment schedule does not extend beyond 12 months.
- (3) The decision on taking the loan shall be published in the Official Gazette of the Republic of Montenegro.

Article 62

- (1) A municipality may raise long-term loans and give guarantees.
- (2) Long-term loan, in compliance with Paragraph 1 of this Article, is any credit in which the principal repayment schedule extends beyond 12 months.
- (3) A municipality may take long-term loans only for the purposes of financing infrastructure projects or for the purchase of major capital assets, in compliance with approved Capital Investment Plan.
- (4) Long-term loans may not be used to finance current expenditures.
- (5) The decision on taking the loan shall be published in the Gazette of the Republic of Montenegro.

Article 63

- (1) Contracts on taking loans, on the basis of Assembly's decision, shall be concluded by Mayor.
- (2) A municipal body in charge of finance, shall keep records on the existing debt of a municipality, short-term and long-term loans taken, and guarantees given.

Article 64

Municipalities may contract debt so that the total repayment of the principal and interests in a specific year, does not exceed 10% of realized revenues in the year that precedes the year of borrowing with the previous approval of the Government of Montenegro.

Article 65

- (1) Public companies, institutions, and other legal entities founded by a municipality can contract debt only with the approval of the founder.
- (2) The Municipal Assembly shall give approval from Paragraph 1 of this Article.
- (3) Limitation from the Article 73 of this Law shall also include possible borrowing of public companies and institutions founded by the municipality.

**V. LOCAL GOVERNMENT TREASURY**

1. Consolidated treasury account and treasury ledger book

Article 66

- (1) Local government body in charge of finance activities shall open a consolidated treasury account.
- (2) Financial means of the budget shall be deposited on the consolidated treasury account.
- (3) No payment shall be done from the consolidated treasury account without being justified in the budget.
- (4) Local government body in charge of finance activities shall be authorized to approve opening of sub-accounts, that is, of other accounts as an integral part of consolidated treasury account.
- (5) Local government body in charge of finance activities shall regulate in details the way of using funds from the account from Paragraph 4 of this Article.
- (6) Local government body in charge of finance activities shall manage the consolidated treasury account, sub-accounts and other accounts.
- (7) Local government body in charge of finance activities shall keep the treasury ledger book.
- (8) Separate records shall be kept in the treasury ledger book for every user of the budget means.
- (9) Transactions and events recorded in the ledger book of a user of budget means must at any moment be in compliance with the transactions in the treasury ledger book and reconciled to the local consolidated bank account.

**2. Treasury activities**

Article 67

Local government body in charge of finance activities shall perform the treasury duties by executing the following functions:

1. Financial planning, which includes:
  - a. Projection and monitoring inflow on consolidated treasury account, as well as expenditure payment requests that include the analysis of cash flow, budget execution plan, debt service;
  - b. Definition of quarterly, monthly, and daily quotas of payment commitments;
2. Cash management, which includes:
  - a. Consolidated treasury account management that records all inflows and all outflows from the budget and what refers to opening and control of bank accounts and sub-accounts and banking relations management
  - b. Liquidity management (including investment of cash balances);
  - c. Further elaboration of procedures in regard to receiving payments through the banking system;
  - d. Financial sources management, including investments of free funds.

3. Expenditures control, which includes managing the processes of approval of commitments, checking received goods and services and approving payments from appropriated funds).

4. Debt management, which includes:

- a. Management of new loans negotiations and agreements;
- b. Keeping records on outstanding debt;
- c. Inflow management from borrowing.

5. Budget accountancy and reporting, which includes:

- a. Accounting activities for payment processing and inflow registration, maintaining daybook, ledger book, and selected accessory books for all inflows and outflows, and international donations and other types of support.
- b. Financial reporting;
- c. Accounting methodology, which includes maintenance of the classification system, prescribing rules for budget accounting, and prescribing requests in regard to internal and external reporting.

6. Managing financial information system.

#### Article 68

In relation to other issues regarding local government treasury operation, if not otherwise defined by this law, provisions of the Budget Law shall be implemented.

### VI. MONITORING

#### Article 69

A Municipal Assembly shall perform monitoring of budget execution and purposeful utilization of the funds that are in the budget appropriated for certain purposes in compliance with the Statute.

#### Article 70

A Mayor shall perform monitoring of financial, material and accountancy operations of spending units regarding the purpose, volume and dynamism of utilization of the funds in compliance with the Statute.

#### Article 71

The competent local government body shall perform administrative monitoring of implementation of this law.

#### Article 72

- (1) Ministry of Finance shall monitor legality of work of local government bodies in implementation of this law.
- (2) Ministry of Finance may require the government body in charge of auditing to review financial operations of a municipality regarding: security, reliability, cost-efficiency, effectiveness and purposefulness of using local government budget funds related to the tasks devolved or delegated to a municipality.

#### Article 73

A Mayor shall present the report on control in relation to Article 72 of this Law to the Municipal Assembly and within 30 days and shall inform the Ministry of Finance about the measures taken.

Article 74

- (1) Municipalities shall be obliged to present to the Ministry of Finance the data on revenues and expenditures, as well as on budget borrowings quarterly in term of 30 days from the day this quarter period expire.
- (2) Form of enclosure and contents of data from Paragraph 1 of this Article shall be regulated by the Minister of Finance.
- (3) A municipality that does not deliver the data in compliance from Paragraphs 1 and 2 of this Article shall temporarily be deprived of funds that it receives from the joint revenues.

**VII. SPECIAL PROVISIONS**

Appliance of other regulations

Article 75

Regarding the way of calculation and payment of municipal taxes, tax procedure and other issues that are not regulated in details by this Law, the provisions of the Law on Tax Administration shall be implemented.

**VIII. TRANSITIONAL AND FINAL PROVISIONS**

Article 76

By-laws for implementation of this Law shall be passed within 120 days after this Law comes into force.

Article 77

- (1) The Local Government Finance Commission shall be established within 60 days after this Law comes into force.
- (2) The Minister of Finance shall call for the consultative session from Paragraph 1 of this Article.

Article 78

By this law coming into force, Law on the System of Public Revenues ("Official Gazette of RoM", no. 30/93, 3/94, 42/94, 13/96, 45/98) and provisions of Article 1, 14, 15, 17, 19, 20, 21, 22, 23 of the Law on Communal Fees and Compensations ("Official Gazette ROM", No. 38/92, 30/93, 3/94, 27/94, 45/98), in the component that refer to local communal fees for issuing company title and payments of compensation for use of utilities of general interest shall cease to be valid.

Article 79

This Law shall come into force within eight days from the day of its publishing in the Official Gazette of the Republic of Montenegro, and it shall be implemented from January 1, 2003.

## EXPLANATORY MEMORANDUM

### I Constitutional basis for enacting the law

The constitutional basis for enacting this Law is given in the provisions of the Article 12 (item 4) of the Constitution of the Republic of Montenegro, which reads that the issues of interest for the Republic, including provision of funds for financing local government, shall be regulated by law.

### II Reasons for enacting the law

Accomplishment of legal system reforms, as a precondition for realization of economic, social, and cultural freedoms and rights executed at the local government level, as well as the enactment of new Law on Local Government, imposed the need of enacting new law on local government finance.

The proposed Law regulates:

- Resources for local government finance;
- Terms of financial equalization, that is, providing the same financial conditions for all municipalities;
- Terms of constituting the Equalization fund and using equalization and incentive grants as instruments of financial equalization of municipalities;
- Terms of using conditional grants from the Republic budget for realization of investment projects;
- Terms of financing local government (contents of the budget, budget execution, annual budget report, control over the use of budget reserves, and local government treasury).

Comparative experience of EU and transitional countries, as well as technical assistance of USAID (ICMA and Barents Group) experts, have been used in preparation of the proposed Law.

### III Explanation of basic legal principles

**General provisions (Articles 1-3)** This chapter defines the contents of the law and basic solutions regarding provision of funds for financing original and delegated activities of local government units. Provisions of the proposed Law also define financing of the Administrative Capital and Historic Capital.

**Financial sources (Articles 4 – 28)** This chapter regulates kind of revenues (sources) used for financing own responsibilities of municipalities. According to the proposed solutions, a municipality is to be financed from its own revenues, number of joint revenues introduced by the Republic and budget grants.

**Local government own revenues** include municipal taxes (introduced by a local government) and they are:

- Surtax on physical person income tax at the rate of up to 13% of the tax liability (instead of the existing fee for using communal goods, which used to be paid to the payroll fund at the rate of 3%). The rate for the Administrative Capital and Historic Capital may amount up to 15%.
- Consumption tax (Beverage tax) – tax on consumption of alcoholic and non-alcoholic beverages at the rate of 3% (new revenue source that is very significant)
- Real estate tax at the rate of 0.08% to 0.80% of a market value (for the first time this revenue source belongs to local governments, which introduce and collect it). So far, this revenue source has been introduced by the Republic and funds from it have been shared at the proportion 50%:50%.



- Tax on vacant construction plots to the amount of 0.03 to 0.30 EUR per a m<sup>2</sup>
- Tax on company or title, at most 300 EUR per a company (this revenue source corresponds to the existing local fee on company title).
- Inheritance and gift tax, in compliance with the specific law (this revenue source has belonged to municipalities to the amount of 50% so far).
- Tourist tax, in compliance with the specific law (according to the existing legal solution, this revenue source is shared between the Republic and municipalities at proportion 30%:70%).

**Local government own revenues** also include revenues from self-imposed contributions introduced in compliance with the specific law.

For financing its functions, a municipality is entitled to a part of Republic revenues, and these are:

- 10% of revenues from the physical person income tax from all resources **(the basis is the revenue from all resources and not only wages at it is now)**. The Historic Capital will receive 15% of the physical person income tax collected at its territory.
- 50% of the revenues from the tax on real estate transfer (existing revenue)
- 30 % of the revenues from concession fees **(completely new revenue)**.

Aiming at equalization of financial conditions of all municipalities, the proposed Law introduces **the institution of equalization fund**. Equalization fund would provide means from the revenues from the tax on physical persons income to the amount of 10%. The means would be used in form of equalization grants and incentive grants in proportion 70% to 30%. Equalization grants would be used by those municipalities whose revenues from **physical person income tax, sales tax, and corporate income tax** are lower than the average of these revenues for all municipalities. Incentive grants would be used by those municipalities that make progress in collecting their own revenues. According to the proposed draft, the allocation of the means from Equalization fund to municipalities would be performed by the Local Government Finance Commission until the end of September of the previous year for the following year and the annual financial statement would be prepared upon the expiry of the fiscal year (by July 31).

**For realization of investment projects municipalities are entitled to use categorical budget grants** (up to 50% of the value of the investment presented in the priced bill of quantities), and in compliance with the legal criteria (in proportion to the level of own revenues collection compared to the Republic average).

**Financial equalization of local government units (Articles 29 – 35)** This chapter defines the manner of using Equalization fund for the purposes of financial equalization of municipalities and regulates the membership of the Local Government Finance Commission.

**Conditional grants from republic budget (Articles 36 – 48)** This chapter regulates the manner of using conditional grants from the Republic budget for realization of investment programs.

**Forms of financing municipalities (Articles 39-59)** This chapter regulates issues that relate to the budget development, budget execution, use of budget reserves, annual budget report and these solutions are in compliance with the Law on State Budget.

**Borrowing (Articles 60-65)** This chapter regulates the conditions of **municipal borrowing** and sets the limit up to which municipalities are allowed to contract debt (up to 10% of realized revenues), which also includes the debt of public companies and institutions founded by the municipality, as well as issued guarantees.

**Local government treasury (Articles 66-68)** This chapter regulates operation and responsibility of the Local government Treasury. These legal solutions are similar to those that refer to the Republic Treasury.



**Monitoring (Articles 69-74)** This chapter regulates issues related to monitoring the implementation of the proposed law, which is to be performed by the Ministry of Finance. Activities of control over the use of means is to be performed by the local government and auditing agency.

**Special provisions (Article 75)** This chapter regulates implementation of the Law on Tax Administration regarding the issues of calculating and paying municipal taxes and tax procedures.

**Transitional and final provisions (Articles 76-80)** This chapter sets the deadline for enacting by-laws and establishing the Local Government Finance Commission.

Since the procedure of establishing the Local Government Finance Commission requires certain time, and in order to provide municipalities with the necessary information about means from the Equalization fund they are entitled to (for the purpose of preparing their budgets), the first appropriation of means for 2003 would be performed by the Government at the Ministry of Finance proposal and with previous estimation given by the Union of Municipalities.

Having in mind that the Republic budget and municipal budgets for 2002 have already been prepared for 2002 and that it is essential to pass several by-laws necessary for implementation of this Law, we propose that local government finance in compliance with the provisions of this Law starts from January 1, 2004.

IV Financial means necessary to be provided from the budget of the Republic for implementation of this Law

It is necessary to provide additional means of approximately 10.0 million EUR for the implementation of this Law. The aforementioned funds are to be provided from the new revenues established by this Law and through reallocations from the Republic budget.

Increase in the funds for financing municipal original competences is a result of their extended competences established by the new Law on Local Government and a necessity to provide municipalities with broader range of funds so that they could execute their duties in a more quality manner.

Overview of Collection Office
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